UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended March 31, 2020

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

For the transition period from to

Commission file number 001-36348

PAYLOCITY HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Large Accelerated Filer	☒	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: 53,686,172 shares of Common Stock, $0.001 par value per share, as of May 1, 2020.

Paylocity Holding Corporation
Form 10-Q
For the Quarterly Period Ended March 31, 2020

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
Unaudited Consolidated Balance Sheets	2
Unaudited Consolidated Statements of Operations and Comprehensive Income	3
Unaudited Consolidated Statement of Changes in Stockholders' Equity	4
Unaudited Consolidated Statements of Cash Flows	5
Notes to the Unaudited Consolidated Financial Statements	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	22
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	36
ITEM 4. CONTROLS AND PROCEDURES	37
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	38
ITEM 1A. RISK FACTORS	38
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	57
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	58
ITEM 4. MINE SAFETY DISCLOSURES	58
ITEM 5. OTHER INFORMATION	58
ITEM 6. EXHIBITS	58
SIGNATURES	60

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2019	March 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 132,476	$ 114,325
Corporate investments	29,314	66,308
Accounts receivable, net	4,358	5,761
Deferred contract costs	21,677	29,086
Prepaid expenses and other	13,895	13,337
Total current assets before funds held for clients	201,720	228,817
Funds held for clients	1,394,469	1,729,176
Total current assets	1,596,189	1,957,993
Capitalized internal-use software, net	27,486	34,067
Property and equipment, net	70,056	68,698
Operating lease right-of-use assets	—	50,180
Intangible assets, net	10,751	9,063
Goodwill	9,590	9,590
Long-term deferred contract costs	81,422	111,842
Long-term prepaid expenses and other	1,975	8,266
Deferred income tax assets	6,472	7,229
Total assets	$ 1,803,941	$ 2,256,928
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,954	$ 3,626
Accrued expenses	57,625	64,002
Total current liabilities before client fund obligations	61,579	67,628
Client fund obligations	1,394,469	1,729,176
Total current liabilities	1,456,048	1,796,804
Deferred rent	31,263	—
Long-term operating lease liabilities	—	74,912
Other long-term liabilities	1,723	1,668
Deferred income tax liabilities	6,943	9,169
Total liabilities	$ 1,495,977	$ 1,882,553
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2019 and March 31, 2020	$ —	$ —
Common stock, $0.001 par value, 155,000 shares authorized at June 30, 2019 and March 31, 2020; 53,075 shares issued and outstanding at June 30, 2019 and 53,660 shares issued and outstanding at March 31, 2020	53	54
Additional paid-in capital	207,982	215,101
Retained earnings	99,817	159,322
Accumulated other comprehensive income (loss)	112	(102)
Total stockholders' equity	$ 307,964	$ 374,375
Total liabilities and stockholders' equity	$ 1,803,941	$ 2,256,928

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2020	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2020
Revenues:				
Recurring and other revenue	$ 133,355	$ 167,095	$ 333,096	$ 416,948
Interest income on funds held for clients	6,197	4,551	14,164	13,792
Total revenues	139,552	171,646	347,260	430,740
Cost of revenues	39,745	48,081	113,757	136,135
Gross profit	99,807	123,565	233,503	294,605
Operating expenses:				
Sales and marketing	27,699	37,801	80,687	112,051
Research and development	12,688	15,612	36,886	45,416
General and administrative	23,208	22,411	68,915	77,283
Total operating expenses	63,595	75,824	186,488	234,750
Operating income	36,212	47,741	47,015	59,855
Other income	540	435	1,155	1,194
Income before income taxes	36,752	48,176	48,170	61,049
Income tax expense	8,726	8,044	4,588	1,544
Net income	$ 28,026	$ 40,132	$ 43,582	$ 59,505
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on securities, net of tax	161	(182)	161	(214)
Total other comprehensive income (loss), net of tax	161	(182)	161	(214)
Comprehensive income	$ 28,187	$ 39,950	$ 43,743	$ 59,291
Net income per share:				
Basic	$ 0.53	$ 0.75	$ 0.82	$ 1.11
Diluted	$ 0.51	$ 0.72	$ 0.79	$ 1.07
Weighted-average shares used in computing net income per share:				
Basic	52,934	53,629	52,880	53,486
Diluted	55,465	55,953	55,280	55,760

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2019						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2018	52,887	$ 53	$ 189,473	$ 61,550	$ (139)	$ 250,937
Stock-based compensation	—	—	9,972	—	—	9,972
Stock options exercised	117	—	1,483	—	—	1,483
Issuance of common stock upon vesting of restricted stock units	19	—	—	—	—	—
Net settlement for taxes and/or exercise price related to equity awards	(59)	—	(4,354)	—	—	(4,354)
Unrealized gains on securities, net of tax	—	—	—	—	161	161
Net income	—	—	—	28,026	—	28,026
Balances at March 31, 2019	52,964	$ 53	$ 196,574	$ 89,576	$ 22	$ 286,225

	Three Months Ended March 31, 2020					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2019	53,573	$ 54	$ 212,240	$ 119,190	$ 80	$ 331,564
Stock-based compensation	—	—	10,051	—	—	10,051
Stock options exercised	130	—	1,318	—	—	1,318
Issuance of common stock upon vesting of restricted stock units	20	—	—	—	—	—
Net settlement for taxes and/or exercise price related to equity awards	(63)	—	(8,508)	—	—	(8,508)
Unrealized losses on securities, net of tax	—	—	—	—	(182)	(182)
Net income	—	—	—	40,132	—	40,132
Balances at March 31, 2020	53,660	$ 54	$ 215,101	$ 159,322	$ (102)	$ 374,375

	Nine Months Ended March 31, 2019					
	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balances at June 30, 2018	52,758	$ 53	$ 219,588	$ (6,678)	$ (139)	$ 212,824
Cumulative effect of change in accounting policy (adoption of Topic 606)	—	—	—	52,672	—	52,672
Stock-based compensation	—	—	30,817	—	—	30,817
Stock options exercised	329	—	4,140	—	—	4,140
Issuance of common stock upon vesting of restricted stock units	623	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	58	—	2,824	—	—	2,824
Net settlement for taxes and/or exercise price related to equity awards	(362)	—	(25,804)	—	—	(25,804)
Repurchases of common shares	(442)	—	(34,991)	—	—	(34,991)
Unrealized gains on securities, net of tax	—	—	—	—	161	161
Net income	—	—	—	43,582	—	43,582
Balances at March 31, 2019	52,964	$ 53	$ 196,574	$ 89,576	$ 22	$ 286,225

	Nine Months Ended March 31, 2020					
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balances at June 30, 2019	53,075	$ 53	$ 207,982	$ 99,817	$ 112	$ 307,964
Stock-based compensation	—	—	36,191	—	—	36,191
Stock options exercised	153	—	1,707	—	—	1,707
Issuance of common stock upon vesting of restricted stock units	708	1	(1)	—	—	—
Issuance of common stock under employee stock purchase plan	45	—	3,961	—	—	3,961
Net settlement for taxes and/or exercise price related to equity awards	(321)	—	(34,739)	—	—	(34,739)
Unrealized losses on securities, net of tax	—	—	—	—	(214)	(214)
Net income	—	—	—	59,505	—	59,505
Balances at March 31, 2020	53,660	$ 54	$ 215,101	$ 159,322	$ (102)	$ 374,375

See accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended March 31,	
	2019	**2020**
Cash flows from operating activities:		
Net income	$ 43,582	$ 59,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	28,837	34,348
Depreciation and amortization expense	25,213	27,832
Deferred income tax expense	4,584	1,544
Provision for doubtful accounts	220	232
Net accretion of discounts and amortization of premiums on available-for-sale securities	(1,607)	(1,673)
Amortization of debt issuance costs	—	113
Loss on disposal of equipment	399	331
Changes in operating assets and liabilities:		
Accounts receivable	(1,904)	(1,635)
Deferred contract costs	(25,359)	(37,829)
Prepaid expenses and other	(1,485)	68
Accounts payable	596	863
Accrued expenses and other	5,299	3,096
Tenant improvement allowance	784	—
Net cash provided by operating activities	79,159	86,795
Cash flows from investing activities:		
Purchases of available-for-sale securities and other	(210,374)	(400,343)
Proceeds from sales and maturities of available-for-sale securities	161,306	250,791
Capitalized internal-use software costs	(14,706)	(19,213)
Purchases of property and equipment	(9,621)	(14,578)
Lease allowances used for tenant improvements	(784)	—
Net cash used in investing activities	(74,179)	(183,343)
Cash flows from financing activities:		
Net change in client fund obligations	496,695	334,707
Repurchases of common shares	(34,991)	—
Proceeds from exercise of stock options	85	—
Proceeds from employee stock purchase plan	2,824	3,961
Taxes paid related to net share settlement of equity awards	(21,749)	(33,136)
Payment of debt issuance costs	—	(675)
Net cash provided by financing activities	442,864	304,857
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	447,844	208,309
Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of period	1,239,731	1,426,143
Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of period	$ 1,687,575	$ 1,634,452
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Purchases of property and equipment, accrued but not paid	$ 3,529	$ —
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ —	$ 115
Cash paid for income taxes	$ 375	$ 24
Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	$ 90,856	$ 114,325
Funds held for clients' cash and cash equivalents	1,596,719	1,520,127
Total cash, cash equivalents and funds held for clients' cash and cash equivalents	$ 1,687,575	$ 1,634,452

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 payroll and human capital management software solutions for medium-sized organizations. Services are provided in a Software-as-a-Service ("SaaS") delivery model utilizing the Company's cloud-based platform. The Company's comprehensive product suite delivers a unified platform that allows clients to make strategic decisions in the areas of payroll, core HR, workforce management, talent and benefits.

(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. In March 2020, the World Health Organization declared the outbreak of the novel coronavirus disease ("COVID-19") as a pandemic which has caused a global slowdown of economic activity that the Company believes will unfavorably impact its business operations and financial conditions. The duration and severity of the COVID-19 pandemic, and the effect the pandemic will have on the Company's clients and general economic conditions, remains uncertain and difficult to predict. Accounting estimates used in the preparation of these consolidated financial statements may change as new events occur, more experience and additional information is acquired, and the operating environment evolves, including the ongoing impact of COVID-19.

Beginning in fiscal 2020, the Company simplified the presentation of revenue and cost of revenues on its Unaudited Consolidated Statements of Operations and Comprehensive Income. The line items "Recurring fees" and "Implementation services and other" have been combined into one revenue line: "Recurring and other revenue". Likewise, the line items "Cost of revenues – recurring revenues" and "Cost of revenues – implementation services and other" have been combined into one line: "Cost of revenues". The Company changed the presentation of revenue and cost of revenues as Implementation services and other has become a smaller component of its overall revenue mix due to the human capital management ("HCM") suite becoming a larger part of the portfolio. Previously reported results for the three and nine months ended March 31, 2019 have been reclassified to conform to the current presentation.

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

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the Company's financial position, results of operations, changes in stockholders' equity and cash flows. The results of operations for the three and nine months ended March 31, 2020 are not necessarily indicative of the results for the full year or the results for any future periods. The financial impacts from the COVID-19 pandemic became more observable in the latter half of March 2020. As a result, the impact of the COVID-19 pandemic will not be fully known or reflected in the Company's results of operations and overall financial performance until future periods. Refer to "Item 1A. Risk Factors" in this Quarterly Report on Form 10-

Q for risks related to the COVID-19 pandemic on its business and financial performance. 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, 2019 included in the Company's Annual Report on Form 10-K filed with the SEC on August 9, 2019.

(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 Adopted Accounting Standards***

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The Company adopted the new standard on July 1, 2019 using the modified retrospective method and the transition relief guidance provided by the FASB in ASU 2018-11, Leases (Topic 842): Targeted Improvements. Consequently, the Company did not update financial information or provide disclosures required under the new standard for dates and periods prior to July 1, 2019. The Company elected the package of practical expedients and did not reassess prior conclusions on whether contracts are or contain a lease, lease classification, and initial direct costs. In addition, the Company adopted the lessee practical expedient to combine lease and non-lease components for all asset classes and elected to not recognize ROU assets and lease liabilities for leases with a term of 12 months or less.

Adoption of the new standard resulted in the Company recording operating lease ROU assets and operating lease liabilities of $52,083 and $83,852, respectively, as of July 1, 2019. The ROU assets were recorded net of $31,769 in deferred rent adjustments that were previously recorded in Accrued expenses and Deferred rent on the Consolidated Balance Sheets as of June 30, 2019. The adoption of this standard did not result in any cumulative-effect adjustments to Retained earnings. Additionally, there was no impact on the Company's unaudited consolidated statements of operations and comprehensive income or the unaudited statement of cash flows as a result of the adoption of Topic 842 for the three and nine months ended March 31, 2019.

Refer to Note 8 for additional disclosures over the Company's leases.

(e) ***Recently Issued Accounting Standards***

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"), which amends the requirements for fair value measurement disclosures. ASU 2018-13 removes, modifies or adds certain disclosure requirements under GAAP. This standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Any new disclosure requirements must be applied on a prospective basis in the interim and annual periods of initial adoption; all removed or modified requirements must be applied retrospectively to all periods presented. The Company plans to adopt this standard on July 1, 2020 and does not expect any material impact from adoption.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12") which provides guidance to reduce complexity in certain areas of accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and simplifies various aspects of the current guidance to promote consistent application of the standard among reporting entities. This standard is effective for fiscal years beginning after December 15, 2020 with early adoption permitted. The Company is currently assessing the impact of ASU 2019-12 on its financial statements as well as the timing and method of adoption.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"), which provides optional practical expedients and exceptions for applying GAAP to contracts and transactions, including debt agreements, affected by interest rate reform as regulators discontinue the use of the London Interbank Offered Rate (LIBOR) and other similar reference rates. This standard is effective for contract modifications made as of March 12, 2020 through December 31, 2022, on a prospective basis. The Company adopted this standard upon its issuance, and it did not have a material impact on the Company's financial statements.

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

(3) Revenue

The Company derives 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 has term arrangements, 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 HR 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. Implementation fees are deferred and amortized generally over a period up to 24 months.

Disaggregation of revenue

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	**2020**	**2019**	**2020**
Recurring fees	$ 129,976	$ 161,266	$ 326,012	$ 402,605
Implementation services and other	3,379	5,829	7,084	14,343
Total revenues from contracts	$ 133,355	$ 167,095	$ 333,096	$ 416,948

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's payroll frequency or by month for subscription-based fees. As such, the Company does not recognize contract assets or liabilities related to recurring revenue.

The nonrefundable upfront fees related to implementation services are invoiced with the client's first payroll period. The Company defers and recognizes these nonrefundable upfront fees generally over a period up to 24 months based on the type of contract. The following table summarizes the changes in deferred revenue (i.e. contract liability) related to these nonrefundable upfront fees as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
Balance at beginning of the period	$ 3,623	$ 6,853	$ —	$ 6,289
Deferral of revenue	4,730	6,099	10,243	12,342
Revenue recognized	(2,354)	(3,992)	(4,244)	(9,671)
Balance at end of the period	$ 5,999	$ 8,960	$ 5,999	$ 8,960

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 $3,466 in fiscal 2020, $4,463 in fiscal 2021, $1,031 in fiscal 2022 and thereafter.

Deferred contract costs

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

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

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

	Three Months Ended March 31, 2019			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 71,476	$ 10,544	$ (4,386)	$ 77,634
Costs to fulfill a contract	10,787	5,583	(538)	15,832
Total	$ 82,263	$ 16,127	$ (4,924)	$ 93,466

	Three Months Ended March 31, 2020			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 92,848	$ 15,141	$ (5,738)	$ 102,251
Costs to fulfill a contract	32,685	7,483	(1,491)	38,677
Total	$ 125,533	$ 22,624	$ (7,229)	$ 140,928

	Nine Months Ended March 31, 2019			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 68,107	$ 21,890	$ (12,363)	$ 77,634
Costs to fulfill a contract	—	16,833	(1,001)	15,832
Total	$ 68,107	$ 38,723	$ (13,364)	$ 93,466

	Nine Months Ended March 31, 2020			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 82,103	$ 36,027	$ (15,879)	$ 102,251
Costs to fulfill a contract	20,996	21,348	(3,667)	38,677
Total	$ 103,099	$ 57,375	$ (19,546)	$ 140,928

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 recorded in Cost of revenues, Sales and marketing, and General and administrative 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 $47,673 as of March 31, 2020, 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) Balance Sheet Information

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

Activity in the allowance for doubtful accounts was as follows:

Balance at June 30, 2019	$ 473
Charged to expense	232
Write-offs	(116)
Balance at March 31, 2020	$ 589

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

	June 30, 2019	March 31, 2020
Capitalized internal-use software	$ 90,991	$ 111,556
Accumulated amortization	(63,505)	(77,489)
Capitalized internal-use software, net	$ 27,486	$ 34,067

Amortization of capitalized internal-use software costs is included in Cost of revenues and amounted to $4,224 and $4,926 for the three months ended March 31, 2019 and 2020, respectively, and $12,854 and $14,073 for the nine months ended March 31, 2019 and 2020, respectively.

Property and equipment, net consist of the following:

	June 30, 2019	March 31, 2020
Office equipment	$ 4,406	$ 4,491
Computer equipment	36,798	42,478
Furniture and fixtures	11,857	12,764
Software	6,332	6,603
Leasehold improvements	44,350	45,366
Time clocks rented by clients	4,679	4,907
Total	108,422	116,609
Accumulated depreciation	(38,366)	(47,911)
Property and equipment, net	$ 70,056	$ 68,698

Depreciation expense amounted to $3,626 and $4,082 for the three months ended March 31, 2019 and 2020, respectively, and $10,671 and $12,071 for the nine months ended March 31, 2019 and 2020, respectively.

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

	June 30, 2019	March 31, 2020	Useful Life
Client relationships	$ 18,130	$ 18,130	7 - 9 years
Non-solicitation agreements	600	600	2 - 4 years
Total	18,730	18,730	
Accumulated amortization	(7,979)	(9,667)	
Intangible assets, net	$ 10,751	$ 9,063	

Amortization expense for acquired intangible assets was $562 and $563 for the three months ended March 31, 2019 and 2020, respectively, and $1,688 for both the nine months ended March 31, 2019 and 2020.

Future amortization expense for acquired intangible assets as of March 31, 2020 is as follows:

Remainder of fiscal 2020	$ 563
Fiscal 2021	2,251
Fiscal 2022	2,232
Fiscal 2023	2,118
Fiscal 2024	1,356
Thereafter	543
Total	$ 9,063

The components of accrued expenses were as follows:

	June 30, 2019	March 31, 2020
Accrued payroll and personnel costs	$ 39,095	$ 38,386
Operating lease liabilities	—	7,955
Deferred revenue	5,572	8,308
Other	12,958	9,353
Total accrued expenses	$ 57,625	$ 64,002

(5) Corporate Investments and Funds Held for Clients

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

	June 30, 2019			
Type of Issue	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 132,478	$ —	$ (2)	$ 132,476
Funds held for clients' cash and cash equivalents	1,293,673	—	(6)	1,293,667
Available-for-sale securities:				
Commercial paper	63,397	33	(2)	63,428
Corporate bonds	27,044	59	(4)	27,099
Asset-backed securities	26,488	55	(3)	26,540
U.S. treasury securities	13,736	21	—	13,757
Total available-for-sale securities (1)	130,665	168	(9)	130,824
Total investments	$ 1,556,816	$ 168	$ (17)	$ 1,556,967

(1) Included within the fair value of total available-for-sale securities above is $30,022 of corporate investments and $100,802 of funds held for clients.

	March 31, 2020			
Type of Issue	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 114,323	$ 3	$ (1)	$ 114,325
Funds held for clients' cash and cash equivalents	1,520,105	23	(1)	1,520,127
Available-for-sale securities:				
Commercial paper	150,388	50	(1)	150,437
Corporate bonds	52,587	18	(357)	52,248
Asset-backed securities	57,612	64	(90)	57,586
U.S. treasury securities	21,302	155	—	21,457
Total available-for-sale securities (2)	281,889	287	(448)	281,728
Total investments	$ 1,916,317	$ 313	$ (450)	$ 1,916,180

(2) Included within the fair value of total available-for-sale securities above is $72,679 of corporate investments and $209,049 of funds held for clients.

Cash and cash equivalents and funds held for clients’ cash and cash equivalents include demand deposit accounts, money market funds, commercial paper and U.S. treasury securities with original maturities of three months or less as of June 30, 2019 and March 31, 2020.

Classification of investments on the unaudited consolidated balance sheets is as follows:

	June 30, 2019	March 31, 2020
Cash and cash equivalents	$ 132,476	$ 114,325
Corporate investments	29,314	66,308
Funds held for clients	1,394,469	1,729,176
Long-term prepaid expenses and other	708	6,371
Total investments	$ 1,556,967	$ 1,916,180

Available-for-sale securities that have been in an unrealized loss position for a period of less and greater than 12 months are as follows:

	June 30, 2019					
	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	$ (2)	$ 19,055	$ —	$ —	$ (2)	$ 19,055
Corporate bonds	(1)	1,500	(3)	3,701	(4)	5,201
Asset-backed securities	(1)	386	(2)	2,958	(3)	3,344
Total available-for-sale securities	$ (4)	$ 20,941	$ (5)	$ 6,659	$ (9)	$ 27,600

	March 31, 2020					
	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	$ (1)	$ 498	$ —	$ —	$ (1)	$ 498
Corporate bonds	(357)	42,474	—	—	(357)	42,474
Asset-backed securities	(90)	29,900	—	—	(90)	29,900
Total available-for-sale securities	$ (448)	$ 72,872	$ —	$ —	$ (448)	$ 72,872

The Company regularly reviews the composition of its portfolio to determine the existence of other-than-temporary-impairment ("OTTI"). The Company did not recognize any OTTI charges in accumulated other comprehensive income during the three or nine months ended March 31, 2019 or 2020, nor does it believe that OTTI exists in its portfolio as of March 31, 2020. The Company plans to retain the securities in an unrealized loss position for a period of time sufficient enough to recover their amortized cost basis or until their maturity date. The Company does not believe that the unrealized losses in its portfolio are due to material credit risks. The securities in an unrealized loss position held an A-1 rating or better as of March 31, 2020.

The Company did not make any material reclassification adjustments out of accumulated other comprehensive income for realized gains and losses on the sale of available-for-sale securities during the three or nine months ended March 31, 2019 or 2020. Gross realized gains and losses on the sale of available-for-sale securities were immaterial for both the three and nine months ended March 31, 2019 and 2020.

Expected maturities of available-for-sale securities at March 31, 2020 are as follows:

	Amortized cost	Fair value
One year or less	$ 244,939	$ 245,004
One year to two years	36,950	36,724
Total available-for-sale securities	$ 281,889	$ 281,728

(6) Fair Value Measurement

The Company applies the fair value measurement and disclosure provisions of ASC 820, Fair Value Measurements and Disclosures, and ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. 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, 2019 and March 31, 2020 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 and U.S. treasury 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, 2019 or March 31, 2020, and the Company did not transfer assets between Levels during the nine months ended March 31, 2019 or 2020.

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

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 132,476	$ 116,387	$ 16,089	$ —
Funds held for clients' cash and cash equivalents	1,293,667	1,244,856	48,811	—
Available-for-sale securities:				
Commercial paper	63,428	—	63,428	—
Corporate bonds	27,099	—	27,099	—
Asset-backed securities	26,540	—	26,540	—
U.S. treasury securities	13,757	—	13,757	—
Total available-for-sale securities	130,824	—	130,824	—
Total investments	$ 1,556,967	$ 1,361,243	$ 195,724	$ —

	March 31, 2020			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 114,325	$ 90,791	$ 23,534	$ —
Funds held for clients' cash and cash equivalents	1,520,127	1,439,324	80,803	—
Available-for-sale securities:				
Commercial paper	150,437	—	150,437	—
Corporate bonds	52,248	—	52,248	—
Asset-backed securities	57,586	—	57,586	—
U.S. treasury securities	21,457	—	21,457	—
Total available-for-sale securities	281,728	—	281,728	—
Total investments	$ 1,916,180	$ 1,530,115	$ 386,065	$ —

(7) Debt

In July 2019, the Company entered into a five-year revolving credit agreement with PNC Bank, National Association, and other lenders, which is secured by substantially all of the Company's assets, subject to certain restrictions. The revolving credit agreement provides for a senior secured revolving credit facility (the "credit facility") under which the Company may borrow up to $250,000, which may be increased to up to $375,000, subject to obtaining additional lender commitments and certain approvals and satisfying other requirements. The credit facility is scheduled to mature in July 2024. As of March 31, 2020, no amounts have been drawn on the credit facility. In April 2020, the Company borrowed $100,000 under the credit facility. Refer to Note 13 for further details on the borrowing under the credit facility.

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 with respect to London Interbank Offered Rate ("LIBOR") revolving loans.

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 LIBOR (or a replacement index for the LIBOR rate) or an adjusted base rate, in each case plus an applicable margin ranging from 0.875% to 1.375% and 0.0% to 0.375%, respectively, based on the then-applicable net senior secured 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.

Under 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, a maximum net senior secured leverage ratio of not greater than 3.50 to 1.00 and a minimum interest coverage ratio of not less than 3.00 to 1.00. As of March 31, 2020, the Company was in compliance with all of the aforementioned covenants.

(8) Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in Operating lease right-of-use assets, Accrued expenses, and Long-term operating lease liabilities in the Unaudited Consolidated Balance Sheets. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Company uses its incremental borrowing rate based on the information available at the lease commencement date. The operating lease right-of-use assets also include any lease payments made at or before the commencement date and are reduced by any lease incentives received. The Company's lease terms may include options to extend or not terminate the lease when it is reasonably certain that it will exercise any such options. For the majority of its leases, the Company concluded that it is not reasonably certain that any renewal options would be exercised, and, therefore, the amounts are not recognized as part of Operating lease right-of-use assets nor Operating lease liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the expected lease term.

The Company's most significant leases are real estate leases of office space. The remaining operating leases are primarily comprised of leases of printers and other equipment. For all leases, the Company has elected the practical expedient permitted under Topic 842 to combine lease and non-lease components. As a result, non-lease components, such as common area or equipment maintenance charges, are accounted for as a single lease element. The Company does not have any finance leases.

Fixed lease expense payments are recognized on a straight-line basis over the lease term. Variable lease payments vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time, and are often due to changes in an external market rate or the value of an index (e.g. Consumer Price Index). Certain of the Company's operating lease agreements include variable payments that are passed through by the landlord, such as insurance, taxes, and common area maintenance, payments based on the usage of the asset, and rental payments adjusted periodically for inflation. Variable payments are expensed as incurred and included within variable rent expense.

The Company's lease agreements do not contain material residual value guarantees, restrictions, or covenants.

The components of operating lease expense were as follows:

	Three Months Ended March 31, 2020	Nine Months Ended March 31, 2020
Operating lease cost	$ 2,358	$ 6,995
Short-term lease cost	1	15
Variable lease cost	848	2,308
Total lease costs	$ 3,207	$ 9,318

The classification of the Company's operating lease right-of-use assets and operating lease liabilities and other supplemental information related to the Company's operating leases are as follows:

	March 31, 2020
Operating lease right-of-use assets	$ 50,180
Accrued expenses	$ 7,955
Long-term operating lease liabilities	$ 74,912
Weighted-average remaining lease term (years)	10.44
Weighted-average discount rate	3.83 %

The following table summarizes supplemental cash flow information related to the Company's operating leases as of March 31, 2020:

	Nine Months Ended March 31, 2020
Cash paid for amounts included in the measurement of operating lease liabilities	$ 7,716
Operating lease assets obtained in exchange for new liabilities	$ 2,723

The undiscounted cash flows for future maturities of the Company's operating lease liabilities and the reconciliation to the balance of operating lease liabilities reflected on the Company's balance sheet are as follows as of March 31, 2020:

Remainder of fiscal 2020	$ 2,755
Fiscal 2021	10,890
Fiscal 2022	9,609
Fiscal 2023	9,229
Fiscal 2024	9,210
Thereafter	60,026
Total undiscounted cash flows	101,719
Less: Present value discount	(18,852)
Total operating lease liabilities	$ 82,867

The table above excludes $546 in the undiscounted future minimum lease payments for operating lease liabilities that had not yet commenced for terms up to 5.67 years.

Rent expense was $2,596 and $7,059 for the three and nine months ended March 31, 2019, respectively.

Future minimum lease payments under non-cancellable operating leases (with initial or remaining terms in excess of one year) as of June 30, 2019 under ASC 840 were as follows:

Fiscal 2020	$ 10,449
Fiscal 2021	11,150
Fiscal 2022	9,500
Fiscal 2023	8,840
Fiscal 2024	8,838
Thereafter	59,401
Total minimum lease payments	$ 108,178

(9) Benefit Plans

(a) ***Equity Incentive Plan***

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 options to purchase common stock 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. The Company’s board of directors determined that it would not increase the number of shares in reserve for issuance under the 2014 Plan as of January 1, 2020.

As of March 31, 2020, the Company had 12,518 shares allocated to the plans, of which 3,026 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 nine months ended March 31, 2020:

	Number of Shares
Available for grant at July 1, 2019	9,759
RSUs granted	(642)
Shares withheld in settlement of taxes and/or exercise price	321
Forfeitures	93
Shares removed	(39)
Available for grant at March 31, 2020	9,492

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 stock options, restricted stock units ("RSUs"), and the Employee Stock Purchase Plan (as described below) is included in the following line items in the accompanying unaudited consolidated statements of operations and comprehensive income:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
Cost of revenues	$ 1,192	$ 1,362	$ 3,734	$ 4,057
Sales and marketing	1,799	3,466	5,496	10,813
Research and development	1,287	1,899	4,025	4,945
General and administrative	5,035	2,789	15,582	14,533
Total stock-based compensation expense	$ 9,313	$ 9,516	$ 28,837	$ 34,348

In addition, the Company capitalized $659 and $535 of stock-based compensation expense in its capitalized internal-use software costs in the three months ended March 31, 2019 and 2020, respectively, and $1,980 and $1,843 in the nine months ended March 31, 2019 and 2020, respectively.

Under the 2008 and 2014 Plans, the exercise price of each option cannot be less than the fair value of a share of common stock on the grant date. The options vested ratably over a three or four-year period and expire 10 years from the grant date. Stock-based compensation expense for the fair value of the options at their grant date is recognized ratably over the vesting schedule for each separately vesting portion of the award.

There were no stock options granted during the nine months ended March 31, 2019 or 2020. The table below presents stock option activity during the nine months ended March 31, 2020:

	Outstanding Options			
	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Balance at July 1, 2019	1,525	$ 12.24	3.95	$ 124,373
Options exercised	(153)	$ 11.15		
Balance at March 31, 2020	1,372	$ 12.37	3.20	$ 104,172
Options vested and exercisable at March 31, 2020	1,372	$ 12.37	3.20	$ 104,172

The total intrinsic value of options exercised was $7,197 and $16,164 during the three months ended March 31, 2019 and 2020, respectively, and $20,901 and $18,244 during the nine months ended March 31, 2019 and 2020, respectively. As of March 31, 2020, the Company had recognized all stock-based compensation cost related to outstanding stock options and all outstanding options had vested.

The Company may also grant 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. Certain RSU awards have time-based vesting conditions while other RSUs vest based on the achievement of certain revenue growth and Adjusted EBITDA margin targets in future fiscal years. For these performance-based RSUs, the Company recognizes stock-based compensation expense based upon the probable achievement of these aforementioned performance metrics. In the third quarter of fiscal 2020, the Company determined that the probable achievement of performance metrics for such outstanding performance-based awards would be lower as a result of the COVID-19 pandemic and its anticipated impact on the Company's operating results. As a result, the Company reversed $2,053 in stock-based compensation expense associated with such awards during the three months ended March 31, 2020.

The following table represents restricted stock unit activity during the nine months ended March 31, 2020:

	Units	Weighted average grant date fair value
RSU balance at July 1, 2019	1,813	$ 53.78
RSUs granted	642	$ 99.72
RSUs vested	(708)	$ 49.75
RSUs forfeited	(93)	$ 59.72
RSU balance at March 31, 2020	1,654	$ 73.57
RSUs expected to vest at March 31, 2020	1,442	$ 71.83

At March 31, 2020, there was $50,414 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 1.91 years.

(b) ***Employee Stock Purchase Plan***

Under the Company's Employee Stock Purchase Plan ("ESPP"), the Company can grant stock purchase rights to all eligible employees during specific offering periods not to exceed twenty-seven months. Each offering period will begin on the trading day closest to May 16 and November 16 of each year. Shares are purchased through employees' payroll deductions, up to a maximum of 10% of employees' compensation for each purchase period, at a purchase price equal to 85% of the lesser of the fair market value of the Company's common stock at the first trading day of the applicable offering period or the purchase date. Participants may purchase up to $25 worth of common stock or 2 shares of common stock in any one year. The ESPP is considered compensatory and recorded as stock-based compensation expense.

As of March 31, 2020, a total of 950 shares of common stock were reserved for future issuances under the ESPP. The number of shares of common stock reserved for issuance under the ESPP 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) 400, (b) seventy-five one hundredths percent (0.75%) of the number of shares of common stock of the Company issued and outstanding on the immediately preceding December 31, or (c) an amount determined by the Company's board of directors. The Company's board of directors determined that it would not increase the number of shares in reserve for issuance under the ESPP as of January 1, 2020.

The Company issued 45 shares upon the completion of its six-month offering period ending November 15, 2019. The Company recorded compensation expense attributable to the ESPP of $516 and $831 for the three months ended March 31, 2019 and 2020, respectively, and $1,401 and $2,208 for the nine months ended March 31, 2019 and 2020, respectively, which is included in the summary of stock-based compensation expense above. The grant date fair value of the ESPP offering periods was estimated using the following weighted average assumptions:

	Nine Months Ended March 31,	
	2019	2020
Valuation assumptions:		
Expected dividend yield	0 %	0 %
Expected volatility	33.5 - 38.3 %	38.6 - 43.3 %
Expected term (years)	0.5	0.5
Risk-free interest rate	2.10 - 2.48 %	1.58 - 2.44 %

(c) ***401(k) Plan***

The Company maintains a 401(k) plan with a matching provision that covers all eligible employees. The Company matches 50% of employees' contributions up to 8% of their gross pay. Contributions were $1,604 and $2,176 for the three months ended March 31, 2019 and 2020, respectively, and $4,138 and $5,947 for the nine months ended March 31, 2019 and 2020, respectively.

(10) Litigation

On July 12, 2019, a former employee filed a class and collective action complaint under federal and state law alleging that certain employees of the Company were misclassified as salaried exempt employees. The complaint seeks unpaid overtime and other damages. The Company has, without admitting any liability or wrongdoing, reached an agreement in principle to settle this matter. The settlement of this claim did not have a material impact to the Company's financial position, results of operations, or liquidity.

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

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") into law. While the Company continues to analyze the relevant provisions of the CARES Act, it does not expect the provisions of the legislation to have a significant impact on the Company's income taxes.

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

The Company's effective tax rate was 23.7% and 16.7% for the three months ended March 31, 2019 and 2020, respectively. The Company's effective tax rate for the three months ended March 31, 2019 was higher than the federal statutory rate of 21% primarily due to state income taxes and nondeductible expenses, partially offset by federal research and development credits. The Company's effective tax rate for the three months ended March 31, 2020 was lower than the federal statutory rate of 21% primarily due to federal research and development credits, partially offset by an increase in valuation allowance.

The Company's effective tax rate was 9.5% and 2.5% for the nine months ended March 31, 2019 and March 31, 2020, respectively. The Company's effective tax rates for the nine months ended March 31, 2019 and March 31, 2020 were lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation and federal research and development credits.

(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 the shares purchasable via the employee stock purchase plan as of the balance sheet date. The following table presents the calculation of basic and diluted net income per share:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
Numerator:				
Net income	$ 28,026	$ 40,132	$ 43,582	$ 59,505
Denominator:				
Weighted-average shares used in computing net income per share:				
Basic	52,934	53,629	52,880	53,486
Weighted-average effect of potentially dilutive shares:				
Employee stock options, restricted stock units and employee stock purchase plan shares	2,531	2,324	2,400	2,274
Diluted	55,465	55,953	55,280	55,760
Net income per share:				
Basic	$ 0.53	$ 0.75	$ 0.82	$ 1.11
Diluted	$ 0.51	$ 0.72	$ 0.79	$ 1.07

The Company excluded 18 and 6 outstanding RSUs from the diluted per share calculations during the three months ended March 31, 2019 and 2020, respectively, and 49 and 17 outstanding RSUs from the diluted per share calculations during the nine months ended March 31, 2019 and 2020, respectively, because to include them would have been anti-dilutive.

In August 2018, the Company announced that its board of directors approved a program to repurchase up to $35,000 of the Company's common stock, with authorization through August 14, 2019. The Company completed the repurchase program during the first quarter of fiscal 2019 and repurchased 442 shares for $34,991. All shares of common stock repurchased were retired.

(13) Subsequent Events

As described in Note 7, the Company entered into a five-year revolving credit agreement in July 2019 which provides for a senior secured revolving credit facility under which the Company may borrow up to $250,000. In April 2020, the Company borrowed $100,000 under this credit facility. Although the Company currently does not have any anticipated need for this additional liquidity, it utilized the borrowing capacity under the credit agreement to provide enhanced financial flexibility due to uncertain market conditions arising from the COVID-19 pandemic. As of March 31, 2020, the Company's primary sources of liquidity were $114,325 of cash and cash equivalents and $72,679 of total corporate investments.

In April 2020, the Company acquired all of the shares outstanding of VidGrid, Inc. through a merger for purchase price consideration of $17,500, subject to customary escrow arrangements and purchase price adjustments. VidGrid, Inc. is a leading video platform provider that enables peer-to-peer video learning courses, transforming video into two-way communication. This transaction expands the Company's product functionality around workplace video communication and reaffirms its commitment to stronger employee collaboration, engagement and retention while helping clients prepare for the workplaces of the future. The Company will account for the acquisition as a business combination in accordance with ASC 805: Business Combinations using the acquisition method of accounting and recognize assets and liabilities at fair value as of the date of acquisition. The acquisition will not have a material impact to the Company's consolidated financial statements.

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 those discussed below and under Part II, Item 1A. "Risk Factors."

Overview

We are a cloud-based provider of payroll and human capital management ("HCM") software solutions for medium-sized organizations, which we define as those having between 20 and 1,000 employees. Our comprehensive and easy-to-use solutions enable our clients to manage their workforces more effectively. Our product suite delivers a unified platform for professionals to make strategic decisions in the areas of payroll, core HR, workforce management, talent and benefits, all while promoting a modern workplace and improving employee engagement.

Effective management of human capital is a core function in all organizations and requires a significant commitment of resources. Our solutions were specifically designed to meet the payroll and HCM needs of medium-sized organizations. We designed our cloud-based platform to provide a unified suite of modules using a multi-tenant architecture. Our solutions are highly flexible and configurable and feature a modern, intuitive user experience. Our platform offers automated data integration with over 300 related third-party systems, such as 401(k), benefits and insurance provider systems.

Our payroll solution was the first of our current offerings introduced into the market. We believe payroll is the most critical system of record for medium-sized organizations and an essential gateway to other HCM functionalities. We have invested in, and we intend to continue to invest in, research and development to expand our product offerings and advance our platform.

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 and quality of products 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 believe that delivering a positive service experience is an essential element of our ability to sell our solutions and retain our clients. We seek to develop deep relationships with our clients through our unified service model, which has been designed to meet the service needs of mid-market organizations. We expect to continue to invest in and grow our implementation and client service organization as our client base grows.

We believe we have the opportunity to continue to grow our business over the long term, and to do so we have invested, and intend to continue to invest, across our entire organization. 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, add new 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, excluding interest earned on certain cash holdings and expenses associated with certain secondary stock offerings, have historically been, and are currently, conducted by its wholly owned subsidiaries, and the financial results presented herein are entirely attributable to the results of its operations.

COVID-19 Impact

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus disease ("COVID-19") as a pandemic which has caused a global slowdown of economic activity that we believe will unfavorably impact our future business operations and financial condition. The COVID-19 pandemic did not have a material impact on our financial position, results of operations or liquidity as of and for the period ended March 31, 2020, as the U.S. economy did not experience a material impact from the COVID-19 pandemic until the latter half of March 2020.

In response to the COVID-19 pandemic, we have transitioned nearly all of our employees across all of our offices (including our corporate headquarters) to remote work-from-home arrangements during our third quarter of fiscal 2020. We did not experience any material disruptions in our ability to operate our business and service our clients during this transition as our business model enables us to service our clients remotely. We were able to continue our implementation efforts remotely, and service our clients efficiently and in a timely manner during the quarter, while our sales team shifted from in-person meetings with prospective and existing clients to engaging with them virtually. Our teams also quickly mobilized to analyze the various state and federal legislative changes enacted by the government in response to the COVID-19 crisis, including the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and the Families First Coronavirus Response Act ("FFCRA") legislation and added automated functionality and reporting to our systems for our clients. Many of our prospective and existing clients' businesses have been impacted by stay-at-home, business closure and other restrictive orders, which has resulted in reduced employee headcount, temporary and permanent business closures, and/or delayed sales/starts.

The duration and severity of the COVID-19 pandemic, and the effects the pandemic will have on our clients and general economic conditions, remains uncertain and difficult to predict. Our business and financial performance may be unfavorably impacted in future periods as a result of the COVID-19 pandemic if a significant number of our clients are unable to continue as viable businesses or reduce headcount, the macro-economic environment continues to experience worsening unemployment, there is a reduction in business confidence and activity, a decrease in government and consumer spending, a decrease in payroll and HCM solutions spending by medium-sized organizations, a decrease in growth in the overall market or a further decline of interest rates, among other factors.

We currently expect COVID-19 to have an unfavorable impact on growth in both Recurring and other revenues and Interest income on funds held for clients in future periods. Recurring and other revenue growth may decline due to lower client employee counts, increases in client losses, less demand for new services, pricing pressures and longer sales cycles. Interest income from funds held for clients has also been unfavorably impacted primarily due to rate reductions by the Federal Reserve. If economic conditions continue to deteriorate into the latter half of the current calendar year, including further increases in private sector unemployment and business closures, declines in new business formation and further reductions in interest rates, we could experience further unfavorable impact to our financial performance. Refer to "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q for risks related to the COVID-19 pandemic to our business and financial performance.

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 $139.6 million for the three months ended March 31, 2019 to $171.6 million for the three months ended March 31, 2020, representing a 23% year-over-year increase. Total revenues increased from $347.3 million for the nine months ended March 31, 2019 to $430.7 million for the nine months ended March 31, 2020, representing a 24% year-over-year increase. Our total revenues increased during the three and nine months ended March 31, 2020 as the effects of COVID-19 had minimal impact during the third quarter. We expect COVID-19 to unfavorably impact our revenue growth rates in future periods as we anticipate lower client employee counts, increases in client losses, less demand for new services, a continued low interest rate environment and a decrease in the growth of the overall market, 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, stock-based compensation expense and employer payroll taxes related to stock releases and option exercises. We define Adjusted EBITDA as net income before interest expense, income tax expense, depreciation and amortization expense, stock-based compensation expense and employer payroll taxes related to stock releases and option exercises and other items as defined below. The table below sets forth our Adjusted Gross Profit and Adjusted EBITDA for the periods presented.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Adjusted Gross Profit	$ 105,300	$ 129,906	$ 250,541	$ 313,290
Adjusted EBITDA	$ 54,816	$ 68,247	$ 104,179	$ 128,989

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Reconciliation from Gross Profit to Adjusted Gross Profit				
Gross profit	$ 99,807	$ 123,565	$ 233,503	$ 294,605
Amortization of capitalized internal-use software costs	4,224	4,926	12,854	14,073
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	1,269	1,415	4,184	4,612
Adjusted Gross Profit	$ 105,300	$ 129,906	$ 250,541	$ 313,290

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Reconciliation from Net Income to Adjusted EBITDA				
Net income	$ 28,026	$ 40,132	$ 43,582	$ 59,505
Interest expense	—	102	—	290
Income tax expense	8,726	8,044	4,588	1,544
Depreciation and amortization expense	8,412	9,571	25,213	27,832
EBITDA	45,164	57,849	73,383	89,171
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	9,652	10,013	30,796	36,871
Other items*	—	385	—	2,947
Adjusted EBITDA	$ 54,816	$ 68,247	$ 104,179	$ 128,989

* Represents nonrecurring costs including lease exit and transaction costs of $0.3 million and $0.9 million incurred during the three and nine months ended March 31, 2020, respectively, and the settlement of a certain legal matter and related litigation costs of $2.0 million during the nine months ended March 31, 2020.

Basis of Presentation

Revenues

Recurring and other revenue

Beginning in fiscal 2020, we simplified the presentation of revenue. Recurring fees and Implementation services and other have been combined into one revenue line: Recurring and other revenue. We changed the presentation of revenue as Implementation services and other has become a smaller component of our overall revenue mix as our HCM suite has become a larger part of the portfolio. Previously reported results for the three and nine months ended March 31, 2019 have been reclassified to conform to the current presentation.

We derive the majority of our revenues from recurring fees attributable to our cloud-based payroll and HCM 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 and implementation fees for professional services provided to implement our payroll and HCM solutions. Implementations of our payroll solutions typically require only three to four weeks 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.

We derive revenue from a client based on the solutions purchased by the client, the number of client employees as well as the amount, type and timing of services provided with respect to those client employees. As such, the number of client employees on our system is not a good indicator of our financial results in any period. Recurring and other revenue accounted for 95% and 97% of our total revenues during the three months ended March 31, 2019 and March 31, 2020, respectively, and 96% and 97% of our total revenues during the nine months ended March 31, 2019 and March 31, 2020, respectively.

While the majority of our agreements with clients are generally cancellable by the client on 60 days’ notice or less, we also have entered into 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

To correspond with the simplification of the presentation of revenue discussed above, we also simplified the presentation of cost of revenue. As a result, Cost of revenues – recurring revenues and Cost of revenues – implementation services and other have been combined into one line: Cost of revenues. Cost of revenues includes costs to provide our payroll and other HCM 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, and bank fees associated with client fund transfers. Employee costs for recurring support are generally expensed as incurred whereas such costs for implementation of 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 all amortized as Cost of revenues. We amortized $4.2 million and $4.9 million of capitalized internal-use software costs during the three months ended March 31, 2019 and 2020, respectively, and $12.9 million and $14.1 million of capitalized internal-use software costs during the nine months ended March 31, 2019 and 2020, 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 and benefits, marketing expenses and other related costs. We capitalize certain selling and commission costs related to new contracts or purchases of additional services by our existing clients. Commissions are typically paid the following month after the start of service, and bonuses for attainment of certain annual performance criteria are subsequently paid annually in the first fiscal quarter of the following year. We generally recognize these costs over a period of 7 years.

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

Research and Development

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

We capitalize a portion of our development costs related to internal-use software. The timing of our capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development expenses for the three and nine months ended March 31, 2019 and 2020.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Capitalized portion of research and development	$ 5,645	$ 7,374	$ 16,344	$ 20,654
Expensed portion of research and development	12,688	15,612	36,886	45,416
Total research and development	$ 18,333	$ 22,986	$ 53,230	$ 66,070

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 administrative, finance, accounting, and human resources 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

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

Results of Operations

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
	(in thousands)		(in thousands)	
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	$ 133,355	$ 167,095	$ 333,096	$ 416,948
Interest income on funds held for clients	6,197	4,551	14,164	13,792
Total revenues	139,552	171,646	347,260	430,740
Cost of revenues	39,745	48,081	113,757	136,135
Gross profit	99,807	123,565	233,503	294,605
Operating expenses:				
Sales and marketing	27,699	37,801	80,687	112,051
Research and development	12,688	15,612	36,886	45,416
General and administrative	23,208	22,411	68,915	77,283
Total operating expenses	63,595	75,824	186,488	234,750
Operating income	36,212	47,741	47,015	59,855
Other income	540	435	1,155	1,194
Income before income taxes	36,752	48,176	48,170	61,049
Income tax expense	8,726	8,044	4,588	1,544
Net income	$ 28,026	$ 40,132	$ 43,582	$ 59,505

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2020	2019	2020
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	95 %	97 %	96 %	97 %
Interest income on funds held for clients	5 %	3 %	4 %	3 %
Total revenues	100 %	100 %	100 %	100 %
Cost of revenues	28 %	28 %	33 %	32 %
Gross profit	72 %	72 %	67 %	68 %
Operating expenses:				
Sales and marketing	20 %	22 %	23 %	26 %
Research and development	9 %	9 %	10 %	10 %
General and administrative	17 %	13 %	20 %	18 %
Total operating expenses	46 %	44 %	53 %	54 %
Operating income	26 %	28 %	14 %	14 %
Other income	0 %	0 %	0 %	0 %
Income before income taxes	26 %	28 %	14 %	14 %
Income tax expense	6 %	5 %	1 %	0 %
Net income	20 %	23 %	13 %	14 %

Comparison of Three Months Ended March 31, 2019 and 2020

Revenues
($ in thousands)

	Three Months Ended March 31,		Change	
	2019	2020	$	%
Recurring and other revenue	$ 133,355	$ 167,095	$ 33,740	25 %
Percentage of total revenues	95 %	97 %		
Interest income on funds held for clients	$ 6,197	$ 4,551	$ (1,646)	(27)%
Percentage of total revenues	5 %	3 %		

Recurring and other revenue

Recurring and other revenue for the three months ended March 31, 2020 increased by $33.7 million, or 25%, to $167.1 million from $133.4 million for three months ended March 31, 2019. Recurring and other revenue increased primarily as a result of incremental revenues from new and existing clients.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the three months ended March 31, 2020 decreased by $1.6 million, or 27% to $4.6 million from $6.2 million for the three months ended March 31, 2019. Interest income on funds held for clients decreased primarily as a result of lower average interest rates due to the interest rate cuts by the Federal Reserve in response to the COVID-19 pandemic. The impact from the reduction in interest rates was partially offset by higher average daily balances for funds held due to the addition of new clients to our client base.

Cost of Revenues
($ in thousands)

	Three Months Ended March 31,		Change	
	2019	2020	$	%
Cost of revenues	$ 39,745	$ 48,081	$ 8,336	21 %
Percentage of total revenue	28 %	28 %		
Gross margin	72 %	72 %		

Cost of Revenues

Cost of revenues for the three months ended March 31, 2020 increased by $8.3 million, or 21%, to $48.1 million from $39.7 million for the three months ended March 31, 2019. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, $5.1 million in additional employee-related costs resulting from additional personnel necessary to provide services to new and existing clients and $1.6 million in delivery and other processing-related fees. Gross margin remained consistent at 72% for both the three months ended March 31, 2019 and 2020.

Operating Expenses
($ in thousands)

Sales and Marketing

	Three Months Ended March 31,		Change	
	2019	2020	$	%
Sales and marketing	$ 27,699	$ 37,801	$ 10,102	36 %
Percentage of total revenues	20 %	22 %		

Sales and marketing expenses for the three months ended March 31, 2020 increased by $10.1 million, or 36%, to $37.8 million from $27.7 million for the three months ended March 31, 2019. The increase in sales and marketing expense was primarily the result of $6.9 million of additional employee-related costs, including those incurred to expand our sales team, and $1.7 million of additional stock-based compensation associated with our equity incentive plan.

Research and Development

	Three Months Ended March 31,		Change	
	2019	2020	$	%
Research and development	$ 12,688	$ 15,612	$ 2,924	23 %
Percentage of total revenues	9 %	9 %		

Research and development expenses for the three months ended March 31, 2020 increased by $2.9 million, or 23%, to $15.6 million from $12.7 million for the three months ended March 31, 2019. The increase in research and development expenses was primarily the result of $3.8 million of additional employee-related costs related to additional development personnel, partially offset by higher period-over-period capitalized internal-use software costs of $1.7 million.

General and Administrative

	Three Months Ended March 31,		Change	
	2019	2020	$	%
General and administrative	$ 23,208	$ 22,411	$ (797)	(3)%
Percentage of total revenues	17 %	13 %		

General and administrative expenses for the three months ended March 31, 2020 decreased by $0.8 million, or 3%, to $22.4 million from $23.2 million for the three months ended March 31, 2019. The decrease in general and administrative expense was primarily the result of decreased stock-based compensation costs associated with our equity incentive plan of $2.2 million, partially offset by $0.7 million of increased occupancy costs incurred as a result of our requirement for additional office space and $0.3 million in certain transaction costs. Stock-based compensation expense decreased for the three months ended March 31, 2020 compared to the prior year due to a reduction in probable achievement levels of performance due to the anticipated impact of the COVID-19 pandemic on operating results. Refer to Note 9 of the Unaudited Consolidated Financial Statements for further details.

Other Income

	Three Months Ended March 31,		Change	
	2019	**2020**	**$**	**%**
Other income	$ 540	$ 435	$ (105)	(19)%
Percentage of total revenues	0 %	0 %		

Other income for the three months ended March 31, 2020 did not materially change as compared to the three months ended March 31, 2020.

Income Taxes

Our effective tax rate was 23.7% and 16.7% for the three months ended March 31, 2019 and March 31, 2020, respectively. Our effective tax rate for the three months ended March 31, 2019 was higher than the federal statutory rate of 21% primarily due to state income taxes and nondeductible expenses, partially offset by federal research and development credits. Our effective tax rate for the three months ended March 31, 2020 was lower than the federal statutory rate of 21% primarily due to federal research and development credits, partially offset by an increase in valuation allowance.

Comparison of Nine Months Ended March 31, 2019 and 2020

Revenues
($ in thousands)

	Nine Months Ended March 31,		Change	
	2019	**2020**	**$**	**%**
Recurring and other revenue	$ 333,096	$ 416,948	$ 83,852	25 %
Percentage of total revenues	96 %	97 %		
Interest income on funds held for clients	$ 14,164	$ 13,792	$ (372)	(3)%
Percentage of total revenues	4 %	3 %		

Recurring and other revenue

Recurring and other revenue for the nine months ended March 31, 2020 increased by $83.9 million, or 25%, to $416.9 million from $333.1 million for the nine months ended March 31, 2019. Recurring and other revenue increased primarily as a result of incremental revenues from new and existing clients.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the nine months ended March 31, 2020 decreased by $0.4 million, or 3% to $13.8 million from $14.2 million for the nine months ended March 31, 2019. Interest income on funds held for clients decreased primarily as a result of lower average interest rates as the Federal Reserve reduced interest rates gradually throughout the nine months ended March 31, 2020 with the most significant interest rate cuts taking place in March 2020 in light of the global economic impact of the COVID-19 pandemic. The impact of these interest rate reductions was partially offset by an increase in average daily balances for funds held due to the addition of new clients to our client base.

Cost of Revenues
($ in thousands)

	Nine Months Ended March 31,		Change	
	2019	2020	$	%
Cost of revenues	$ 113,757	$ 136,135	$ 22,378	20 %
Percentage of total revenue	33 %	32 %		
Gross margin	67 %	68 %		

Cost of Revenues

Cost of revenues for the nine months ended March 31, 2020 increased by $22.4 million, or 20%, to $136.1 million from $113.8 million for the nine months ended March 31, 2019. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, $14.2 million in additional employee-related costs resulting from additional personnel necessary to provide services to new and existing clients and $4.7 million in delivery and other processing-related fees. Gross margin increased from 67% for the nine months ended March 31, 2019 to 68% for the nine months ended March 31, 2020.

Operating Expenses
($ in thousands)

Sales and Marketing

	Nine Months Ended March 31,		Change	
	2019	2020	$	%
Sales and marketing	$ 80,687	$ 112,051	$ 31,364	39 %
Percentage of total revenues	23 %	26 %		

Sales and marketing expenses for the nine months ended March 31, 2020 increased by $31.4 million, or 39%, to $112.1 million from $80.7 million for the nine months ended March 31, 2019. The increase in sales and marketing expense was primarily the result of $20.1 million of additional employee-related costs, including those incurred to expand our sales team, and $5.3 million of additional stock-based compensation associated with our equity incentive plan.

Research and Development

	Nine Months Ended March 31,		Change	
	2019	2020	$	%
Research and development	$ 36,886	$ 45,416	$ 8,530	23 %
Percentage of total revenues	10 %	10 %		

Research and development expenses for the nine months ended March 31, 2020 increased by $8.5 million, or 23%, to $45.4 million from $36.9 million for the nine months ended March 31, 2019. The increase in research and development expenses was primarily the result of $10.9 million of additional employee-related costs related to additional development personnel, partially offset by higher period-over-period capitalized internal-use software costs of $4.3 million.

General and Administrative

	Nine Months Ended March 31,		Change	
	2019	2020	$	%
General and administrative	$ 68,915	$ 77,283	$ 8,368	12 %
Percentage of total revenues	20 %	18 %		

General and administrative expenses for the nine months ended March 31, 2020 increased by $8.4 million, or 12%, to $77.3 million from $68.9 million for the nine months ended March 31, 2019. The increase in general and administrative expense was primarily the result of $3.1 million of additional employee-related costs, $2.9 million in the settlement of a certain legal matter, related litigation costs and certain lease exit and transaction costs and $2.5 million of increased occupancy costs incurred as a result of our requirement for additional office space, offset by a $1.0 million decrease in stock-based compensation costs associated with our equity incentive plan. Stock-based compensation expense decreased for the nine months ended March 31, 2020 compared to the prior year due to a reduction in probable achievement levels of performance due to the anticipated impact of the COVID-19 pandemic on operating results, partially offset by additional stock-based compensation expense for RSUs with time-based vesting conditions. Refer to Note 9 of the Unaudited Consolidated Financial Statements for further details.

Other Income

	Nine Months Ended March 31,		Change	
	2019	2020	$	%
Other income	$ 1,155	$ 1,194	$ 39	3 %
Percentage of total revenues	0 %	0 %		

Other income for the nine months ended March 31, 2020 did not materially change as compared to the nine months ended March 31, 2019.

Income Taxes

Our effective tax rate was 9.5% and 2.5% for the nine months ended March 31, 2019 and 2020, respectively. Our effective tax rates for the nine months ended March 31, 2019 and 2020 were lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation and federal research and development credits.

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.

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic which has caused a global slowdown of economic activity that we believe will unfavorably impact our business operations and financial conditions. The duration and severity of the COVID-19 pandemic, and the effect the pandemic will have on our clients and general economic conditions, remains uncertain and difficult to predict. Accounting estimates used in the preparation of these consolidated financial statements may change as new events occur, more experience and additional information is acquired, and the operating environment evolves including the ongoing impact of COVID-19. Refer to "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q for risks related to the COVID-19 pandemic on its business and financial performance.

Our critical accounting policies and use of estimates are disclosed in our audited consolidated financial statements for the year ended June 30, 2019 included in our Annual Report on Form 10-K filed with the SEC on August 9, 2019.

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. The share repurchase program completed during the first quarter of fiscal 2019 was funded by our cash flows from operations. As of March 31, 2020, our principal sources of liquidity were $114.3 million of cash and cash equivalents and $72.7 million of total corporate investments. We invest portions of our excess cash and cash equivalents in highly liquid, investment-grade marketable securities. These investments consist of commercial paper, asset-backed debt securities, corporate debt issuances and U.S. Treasury securities with credit quality ratings of A-1 or higher. We believe that our investments in unrealized loss positions as of March 31, 2020 were not other-than-temporarily impaired, nor has any event occurred subsequent to that date that would change that conclusion.

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, as well as the extent and duration of COVID-19 on the macro-economic environment. Many of these investments will occur in advance of our 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 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 and corporate investments or utilize our credit facility that we entered into in July 2019 to satisfy those needs. Refer to Notes 7 and 13 of the Notes to the Unaudited Consolidated Financial Statements for additional detail on the credit agreement and our initial borrowing under the credit facility subsequent to March 31, 2020, respectively.

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 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, corporate investments, 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. In April 2020, we borrowed $100 million under our credit facility. Although we currently do not have any anticipated need for this additional liquidity, we utilized our borrowing capacity under our credit agreement in order to provide enhanced financial flexibility due to uncertain market conditions arising from COVID-19.

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

	Nine Months Ended March 31,	
	2019	2020
Net cash provided by operating activities	$ 79,159	$ 86,795
Cash flows from investing activities:		
Purchases of available-for-sale securities and other	(210,374)	(400,343)
Proceeds from sales and maturities of available-for-sale securities	161,306	250,791
Capitalized internal-use software costs	(14,706)	(19,213)
Purchases of property and equipment	(9,621)	(14,578)
Lease allowances used for tenant improvements	(784)	—
Net cash used in investing activities	(74,179)	(183,343)
Cash flows from financing activities:		
Net change in client fund obligations	496,695	334,707
Repurchases of common shares	(34,991)	—
Proceeds from exercise of stock options	85	—
Proceeds from employee stock purchase plan	2,824	3,961
Taxes paid related to net share settlement of equity awards	(21,749)	(33,136)
Payment of debt issuance costs	—	(675)
Net cash provided by financing activities	442,864	304,857
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	$ 447,844	$ 208,309

Operating Activities

Net cash provided by operating activities was $79.2 million and $86.8 million for the nine months ended March 31, 2019 and 2020, respectively. The increase in net cash provided by operating activities from the nine months ended March 31, 2019 to the nine months ended March 31, 2020 was primarily due to improved operating results after adjusting for non-cash items including stock-based compensation expense, depreciation and amortization expense and deferred income tax expense, partially offset by changes in operating assets and liabilities, mostly driven by changes in deferred contract costs and accrued expenses and other during the nine months ended March 31, 2020.

Investing Activities

Net cash used in investing activities was $74.2 million and $183.3 million for the nine months ended March 31, 2019 and 2020, 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 excess corporate cash and 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 increases in purchases of available-for-sale securities of $190.0 million, purchases of property and equipment of $5.0 million and capitalized internal-use software costs of $4.5 million, partially offset by increases in proceeds from sales and maturities of available-for-sale securities of $89.5 million during the nine months ended March 31, 2020 as compared to the nine months ended March 31, 2019.

Financing Activities

Net cash provided by financing activities was $442.9 million and $304.9 million for the nine months ended March 31, 2019 and 2020, respectively. The change in net cash provided by financing activities was primarily the result of a decrease in client fund obligations of $162.0 million due to the timing of client funds collected and related remittance of those funds to client employees and taxing authorities and $11.4 million in increased taxes paid related to net share settlement of equity awards during the nine months ended March 31, 2020 as compared to the March 31, 2019, partially offset by $35.0 million of repurchases of common shares during the nine months ended March 31, 2019.

Contractual Obligations and Commitments

Our principal commitments consist of operating lease obligations. The following table summarizes our contractual obligations at March 31, 2020:

	Payment Due By Fiscal Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	$ 101,719	$ 10,901	$ 19,294	$ 18,348	$ 53,176
Unconditional purchase obligations	12,151	6,797	4,557	797	—
	$ 113,870	$ 17,698	$ 23,851	$ 19,145	$ 53,176

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 and the ongoing impact from COVID-19. 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 $9.6 million and $14.6 million for the nine months ended March 31, 2019 and 2020, respectively, exclusive of capitalized internal-use software costs of $14.7 million and $19.2 million for the same periods, respectively.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that may be material to investors.

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 solely 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 as well as risks relating to changes in the general economic conditions in the United States. As discussed in Item 2. Management's Discussion and Analysis of Financial Condition and Results of operations, the novel coronavirus disease ("COVID-19") pandemic has significantly disrupted the global economy and financial markets and we believe it will unfavorably impact our future business and financial performance. Refer to Item 1A. Risk Factors for 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 March 31, 2020, we had cash and cash equivalents of $114.3 million, corporate investments of $72.7 million and funds held for clients of $1,729.2 million. We deposit our cash and cash equivalents and significant portions of our funds held for clients in demand deposit accounts with various financial institutions. We invest portions of our excess cash and cash equivalents and funds held for clients in marketable securities including commercial paper, corporate bonds, asset-backed securities and U.S. treasury securities, which were classified as available-for-sale securities as of March 31, 2020. 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 to be other-than-temporary. We have not recorded any other-than-temporary impairment losses to date.

Based upon a sensitivity model that measures market value changes caused by interest rate fluctuations, an immediate 25-basis point increase in interest rates would have resulted in a decrease in the market value of our available-for-sale securities included in funds held for clients by $0.3 million as of March 31, 2020. A 25-basis point decrease in interest rates would have resulted in a $0.3 million increase in the market value of our available-for-sale securities included in funds held for clients as of March 31, 2020. 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 7 of the Notes to the Unaudited Consolidated Financial Statements, we entered into a credit agreement that provides for a revolving credit facility ("credit facility") in the aggregate amount of $250.0 million, which may be increased up to $375.0 million. Borrowings under the credit facility will generally bear interest at a rate based upon the London Interbank Offered Rate ("LIBOR") (or a replacement rate for LIBOR) or, at our sole option, an adjusted base rate plus an applicable margin based on our then-applicable net senior secured leverage ratio. As of March 31, 2020, we had not drawn any amounts under the credit facility. To the extent that we draw upon the borrowing capacity available through the credit facility as we did in April 2020, we expect to be exposed to increased interest rate risk. Refer to Note 13 to the Unaudited Consolidated Financial Statements for additional details regarding our credit facility borrowings.

Inflation Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2020, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

Effective July 1, 2019, we adopted Accounting Standard Codification Topic 842, Leases. Changes were made to the relevant business processes and the related control activities in order to monitor and maintain appropriate controls 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.

Our business, prospects, financial condition or operating results could be materially adversely affected by any of these risks, as well as other risks not currently known to us or that are currently considered immaterial. The trading price of our common stock could decline due to any of the risks and uncertainties described below, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our consolidated financial statements and related notes.

Our quarterly operating results have fluctuated in the past and may continue to fluctuate, which may cause the value of our common stock to decline substantially.

Our quarterly operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Moreover, our stock price might be based on expectations of future performance that are unrealistic or that we might not meet and, if our revenue or operating results fall below such expectations, the price of our common stock could decline substantially.

Our number of new clients typically increases more during our third fiscal quarter ending March 31 than during the rest of our fiscal year, primarily because many new clients prefer to start using our payroll and human capital management, or HCM, solutions at the beginning of a calendar year. In addition, client funds and year-end activities are traditionally higher during our third fiscal quarter. As a result of these factors, our total revenue and expenses have historically grown disproportionately during our third fiscal quarter as compared to other quarters.

In addition to other risk factors listed in this section, some of the important factors that may cause fluctuations in our quarterly operating results include:

- The severity and duration of the uncertainties and adverse impacts of the coronavirus disease (“COVID-19”) on our business, our clients and our partners and markets generally;
- The extent to which our products achieve or maintain market acceptance;
- Our ability to introduce new products and enhancements and updates to our existing products on a timely basis;
- Competitive pressures and the introduction of enhanced products and services from competitors;
- Changes in client budgets and procurement policies;
- The amount and timing of our investment in research and development activities and whether such investments are capitalized or expensed as incurred;
- The number of our clients’ employees;
- Timing of recognition of revenues and expenses;
- Client renewal rates;

- Seasonality in our business;
- Technical difficulties with our products or interruptions in our services;
- Our ability to hire and retain qualified personnel;
- A repeal of or changes to the laws and regulations related to the products and services which we offer;
- Changes in accounting principles;
- Changes in interest rates; and
- Unforeseen legal expenses, including litigation and settlement costs.

The majority of our agreements with clients do not have a specified term and are generally cancellable by our clients upon 60 days' or less notice. In fiscal 2018, the Company also began entering into term agreements, which are generally two years in length. If a significant number of clients elected to terminate their agreements with us, our operating results and our business would be adversely affected.

In addition, a significant portion of our operating expenses are related to compensation and other items which are relatively fixed in the short-term, and we plan expenditures based in part on our expectations regarding future needs and opportunities. Accordingly, changes in our business or revenue shortfalls could decrease our gross and operating margins and could cause significant changes in our operating results from period to period. If this occurs, the trading price of our common stock could fall substantially, either suddenly or over time.

Our operating results for previous fiscal quarters are not necessarily indicative of our operating results for the full fiscal years or for any future periods. We believe that, due to the underlying factors for quarterly fluctuations, quarter-to-quarter comparisons of our operations are not necessarily meaningful and that such comparisons should not be relied upon as indications of future performance.

Our business, results of operations and financial condition have been, and will continue to be, adversely impacted by the uncertainties and consequences stemming from the COVID-19 pandemic.

The spread of COVID-19 is causing significant economic and individual uncertainty and disruption across the country and world. In response, we have taken a number of actions including transitioning nearly all of our employees across our offices (including our corporate headquarters) to remote work-from-home arrangements and imposing travel and related restrictions. We believe these actions were reasonable and necessary as a result of the COVID-19 pandemic. Given the continued spread of COVID-19 and the resultant personal, economic and governmental reactions, we may have to take additional actions in the future that could negatively impact our business and financial performance.

Many of our clients have also been unfavorably impacted by the COVID-19 pandemic, which is outside of our control. For example, many cities, counties and states across the country have imposed or may impose a wide range of stay-at-home, business closure and other restrictive orders that impact our clients. Many of our clients' businesses have been impacted by these stay-at-home, business closure and other restrictive orders and some have been required to reduce employee headcount as a result. If a significant number of our clients are unable to continue as viable businesses or otherwise are required to further reduce headcount, it would have an adverse impact on our business and financial condition. If the COVID-19 pandemic has a prolonged substantial impact on our employees, partners or clients, our results of operations and overall financial performance may be unfavorably impacted.

Our business depends on the overall demand for payroll and HCM software and services, and on the economic health of our current and prospective clients. Any significant weakening of the economy in the United States, or further decline of interest rates, continuing or worsening unemployment, a reduction in business confidence and activity, decreased government and consumer spending, decreased payroll and HCM solutions spending by medium-sized organizations, economic uncertainty and other difficulties as a result of the COVID-19 pandemic, may affect one or more of the sectors in which we sell our applications.

The impacts of the COVID-19 pandemic on our business, clients, partners, employees, markets and financial results and condition are uncertain, evolving and dependent on numerous unpredictable factors outside of our control, including:

- the spread, duration and severity of the pandemic as a public health matter and its impact on governments, businesses and society generally and our clients, partners and our business more specifically;
- the measures being taken by governments, businesses and society in response to the pandemic and their effectiveness;
- the scope and effectiveness of fiscal and monetary stimulus programs (such as the Payroll Protection Program) and other legislative and regulatory measures being implemented by federal, state and local governments;
- the duration and impact of the numerous shelter-in-place, business closure and other restrictive orders throughout the country;
- the increase in business failures among our clients and other businesses;
- the pace and extent to which our clients and other businesses reduce their number of employees and other compensated individuals; and
- the willingness of current and prospective clients to invest in our products and services.

Any of these factors may impact our business unfavorably.

Adverse changes in economic or political conditions could adversely affect our operating results and our business.

The changing market and economic conditions resulting from the COVID-19 pandemic may cause a decline in the number of our clients' employees being paid and attrition among our clients, which could have an unfavorable impact on our business. A number of our clients have reduced their employee headcount, and may undergo further reductions. Clients may also delay or reduce technology purchases. This could also result in reductions in our recurring revenue and new sales, increased price competition and clients purchasing fewer solutions. Any of these events could unfavorably impact our business, results of operations, financial condition and cash flows from operations. There can also be no assurance that any decrease in revenue resulting from the COVID-19 pandemic will be offset by increased revenue in subsequent periods.

Trade, monetary and fiscal policies, and political and economic conditions may substantially change, and credit markets may experience periods of constriction and volatility. When there is a slowdown in the economy, employment levels and interest rates may decrease with a corresponding impact on our business. Interest rates have already been reduced as a result of the COVID-19 pandemic, and further interest rate reductions will impact our interest income from client funds held.

Failure to manage our growth effectively could increase our expenses, decrease our revenue, and prevent us from implementing our business strategy and sustaining our revenue growth rates.

We have been rapidly growing our revenue and number of clients, and we will seek to do the same for the foreseeable future. However, the growth in our number of clients puts significant strain on our business, requires significant capital expenditures and increases our operating expenses. To manage this growth effectively, we must attract, train, and retain a significant number of qualified sales, implementation, client service, software development, information technology and management personnel. We also must maintain and enhance our technology infrastructure and our financial and accounting systems and controls. If we fail to effectively manage our growth or we over-invest or under-invest in our business, our business and results of operations could suffer from the resultant weaknesses in our infrastructure, systems or controls. We could also suffer operational mistakes, a loss of business opportunities and employee losses. If our management is unable to effectively manage our growth, our expenses might increase more than expected, our revenue could decline or might grow more slowly than expected, and we might be unable to implement our business strategy. In addition, our revenue growth rates may decline in future periods as a result of various factors, including our failure to manage our growth effectively, our increased market penetration and the maturation of our business, slowing demand for our services, reductions in the number of employees by our clients, reductions in the number of our clients, public health issues such as the COVID-19 pandemic and a decrease in the growth of the overall market, among other factors.

The markets in which we participate are highly competitive, and if we do not compete effectively, our operating results could be adversely affected.

The market for payroll and HCM solutions is fragmented, highly competitive and rapidly changing. Our competitors vary for each of our solutions and primarily include payroll and HR service and software providers, such as Automatic Data Processing, Inc., Paychex, Inc., Paycom Software, Inc., Paycor, Inc., Ultimate Software Group, Inc. and other local and regional providers.

Several of our competitors are larger, have greater name recognition, longer operating histories and significantly greater resources than we do. Many of these competitors are able to devote greater resources to the development, promotion and sale of their products and services. Furthermore, our current or potential competitors may be acquired by third parties with greater available resources and the ability to initiate or withstand substantial price competition. As a result, our competitors may be able to develop products and services better received by our markets or may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, regulations or client requirements.

In addition, current and potential competitors have established, and might in the future establish, partner or form other cooperative relationships with vendors of complementary products, technologies or services to enable them to offer new products and services, to compete more effectively or to increase the availability of their products in the marketplace. New competitors or relationships might emerge that have greater market share, a larger client base, more widely adopted proprietary technologies, greater marketing expertise, greater financial resources, and larger sales forces than we have, which could put us at a competitive disadvantage. In light of these advantages, current or potential clients might accept competitive offerings in lieu of purchasing our offerings. We expect intense competition to continue for these reasons, and such competition could negatively impact our sales, profitability or market share.

If we do not continue to innovate and deliver high-quality, technologically advanced products and services, we will not remain competitive and our revenue and operating results could suffer.

The market for our solutions is characterized by rapid technological advancements, changes in client requirements, frequent new product introductions and enhancements and changing industry standards. The life cycles of our products are difficult to estimate. Rapid technological changes and the introduction of new products and enhancements by new or existing competitors could undermine our current market position.

Our success depends in substantial part on our continuing ability to provide products and services that medium-sized organizations will find superior to our competitors' offerings and will continue to use. We intend to continue to invest significant resources in research and development in order to enhance our existing products and services and introduce new high-quality products that clients will want. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis or to effectively bring new products to market, our sales may suffer.

In addition, we may experience difficulties with software development, industry standards, design, or marketing that could delay or prevent our development, introduction or implementation of new solutions and enhancements. The introduction of new solutions by competitors, the emergence of new industry standards or the development of entirely new technologies to replace existing offerings could render our existing or future solutions obsolete.

We may not have sufficient resources to make the necessary investments in software development and we may experience difficulties that could delay or prevent the successful development, introduction or marketing of new products or enhancements. In addition, our products or enhancements may not meet the increasingly complex client requirements of the marketplace or achieve market acceptance at the rate we expect, or at all. Any failure by us to anticipate or respond adequately to technological advancements, client requirements and changing industry standards, or any significant delays in the development, introduction or availability of new products or enhancements, could undermine our current market position.

If we are unable to release periodic updates on a timely basis to reflect changes in tax, benefit and other laws and regulations that our products help our clients address, the market acceptance of our products may be adversely affected and our revenues could decline.

Our solutions are affected by changes in tax, benefit and other laws and regulations and generally must be updated regularly to maintain their accuracy and competitiveness. Although we believe our SaaS platform provides us with flexibility to release updates in response to these changes, we cannot be certain that we will be able to make the necessary changes to our solutions and release updates on a timely basis, or at all. Failure to do so could have an adverse effect on the functionality and market acceptance of our solutions. Changes in tax, benefit and other laws and regulations could require us to make significant modifications to our products or delay or cease sales of certain products, which could result in reduced revenues or revenue growth and our incurring substantial expenses and write-offs.

If we fail to manage our technical operations infrastructure, including operation of our data centers, our existing clients may experience service outages and our new clients may experience delays in the deployment of our modules.

We have experienced significant growth in the number of users, transactions and data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our data centers and other operations infrastructure to meet the needs of all of our clients. We also seek to maintain excess capacity to facilitate the rapid provision of new client deployments and the expansion of existing client deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters and the evolution of our modules. However, the provision of new hosting infrastructure requires significant lead time. We have experienced, and may in the future experience, website disruptions, outages and other performance problems. These problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, security attacks, fraud, spikes in client usage and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. If we do not accurately predict our infrastructure requirements, our existing clients may experience service outages that may subject us to financial penalties, financial liabilities and client losses. If our operations infrastructure fails to keep pace with increased sales, clients may experience delays as we seek to obtain additional capacity, which could adversely affect our reputation and our revenues.

In addition, our ability to deliver our cloud-based modules depends on the development and maintenance of Internet infrastructure by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, bandwidth capacity, and security. Our services are designed to operate without interruption. However, we have experienced and expect that we will experience future interruptions and delays in services and availability from time to time. In the event of a catastrophic event with respect to one or more of our systems, we may experience an extended period of system unavailability, which could negatively impact our relationship with clients. To operate without interruption, both we and our clients must guard against:

- Damage from fire, power loss, natural disasters, pandemics such as COVID-19 and other force majeure events outside our control;
- Communications failures;
- Software and hardware errors, failures and crashes;
- Security breaches, computer viruses, hacking, worms, malware, ransomware, denial-of-service attacks and similar disruptive problems; and
- Other potential interruptions.

We also rely on computer hardware purchased or leased and software licensed from third parties in order to offer our services. These licenses and hardware are generally commercially available on varying terms. However, it is possible that this hardware and software might not continue to be available on commercially reasonable terms, or at all.

Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated.

Furthermore, our payroll module is essential to our clients' timely payment of wages to their employees. Any interruption in our service may affect the availability, accuracy or timeliness of these programs and could damage our reputation, cause our clients to terminate their use of our software, require us to indemnify our clients against certain losses due to our own errors and prevent us from gaining additional business from current or future clients.

We host our solutions at a third-party facility in Franklin Park, Illinois and utilize another third-party facility in Kenosha, Wisconsin for backup and disaster recovery. We also may decide to employ additional offsite data centers in the future to accommodate growth. Problems faced by our data center locations (such as a hardware or other supply chain disruption resulting from the COVID-19 pandemic), with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their clients, including us, could adversely affect the availability and processing of our solutions and related services and the experience of our clients. If our data centers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business and cause us to incur additional expense. In addition, any financial difficulties faced by our third-party data center's operator or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Any changes in service levels at our third-party data center or any errors, defects, disruptions or other performance problems with our modules could adversely affect our reputation and may damage our clients' stored files or result in lengthy interruptions in our services. Interruptions in our services might reduce our revenues, subject us to potential liability or other expenses or adversely affect our renewal rates.

In addition, while we own, control and have access to our servers and all of the components of our network that are located in our backup data centers, we do not control the operation of these facilities. The operators of our third party data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if the data center operators are acquired, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur costs and experience service interruption in doing so.

Our partners, suppliers, and clients are also subject to the risk of natural disaster, pandemic or other catastrophic events (such as the COVID-19 pandemic). In those events, our ability to deliver our services in a timely manner, as well as the demand for our services, may be adversely impacted by factors outside our control.

If our security measures are breached or unauthorized access to client data or funds is otherwise obtained, our solutions may be perceived as not being secure, clients may reduce the use of or stop using our solutions and we may incur significant liabilities.

Our solutions involve the storage and transmission of our clients' and their employees' proprietary and confidential information. This information includes bank account numbers, tax return information, social security numbers, benefit information, retirement account information, payroll information, system passwords, and in the case of our benefit administration solution, BeneFLEX, health information protected by the Health Insurance Portability and Accountability Act of 1996, as amended, or HIPAA. In addition, we collect and maintain personal information on our own employees in the ordinary course of our business. Finally, our business involves the storage and transmission of funds from the accounts of our clients to their employees, taxing and regulatory authorities and others. As a result, unauthorized access or security breaches of our systems or the systems of our clients could result in the unauthorized disclosure of confidential information, theft, litigation, indemnity obligations and other significant liabilities. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are employed, we may be unable to anticipate these techniques or to implement adequate preventative measures in advance. As cyber threats continue to evolve, we are focused on ensuring that our operating environments safeguard and protect personal and business information. We may be required to invest significant additional resources to comply with evolving cybersecurity regulations and to modify and enhance our information security and controls, and to investigate and remediate any security vulnerabilities. While we have security measures and controls in place to protect confidential information, prevent data loss, theft and other security breaches, including penetration tests of our systems by independent third parties, if our security measures are breached, our business could be substantially harmed and we could incur significant liabilities. The costs of investigating, mitigating, and reporting such a breach to affected individuals (if required) can be substantial. In addition, if a high-profile security breach occurs with respect to an industry peer, our clients and potential clients may generally lose trust in the security of payroll and HCM modules. Any such breach or unauthorized access could negatively affect our ability to attract new clients, cause existing clients to terminate their agreements with us, result in reputational damage and subject us to lawsuits, regulatory fines (including, in the case of our benefit administration solution, BeneFLEX, penalties for failure to comply with HIPAA) or other actions or liabilities which could materially and adversely affect our business and operating results.

There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim related to a breach or unauthorized access. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and results of operations.

Because of the way we recognize our revenue and our expenses over varying periods, changes in our business may not be immediately reflected in our financial statements.

We recognize the majority of our revenue as services are performed. The amount of revenue we recognize in any particular period is derived in significant part based on the number of employees of our clients served by our solutions. As a result, our revenue is dependent in part on the success of our clients. The effect on our revenue of significant changes in sales of our solutions or in our clients' businesses may not be fully reflected in our results of operations until future periods.

We recognize our expenses over varying periods based on the nature of the expense. When a client terminates its relationship with us, we may not have derived enough revenue from that client to cover associated implementation costs. Our expenses fluctuate as a percentage of revenue, and changes in our business generally may not be immediately reflected in our results of operations.

If we fail to adequately expand our direct sales force with qualified and productive persons, we may not be able to grow our business effectively.

We primarily sell our products and implementation services through our direct sales force. To grow our business, we intend to focus on growing our client base for the foreseeable future. Our ability to add clients and to achieve revenue growth in the future will depend upon our ability to grow and develop our direct sales force and on their ability to productively sell our solutions. Identifying and recruiting qualified personnel and training them in the use of our software requires significant time, expense and attention. Extended stay-at-home, business closure and other restrictive orders may impact our ability to identify, hire and train new personnel. The amount of time it takes for our sales representatives to be fully-trained and to become productive varies widely. In addition, if we hire sales representatives from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources.

If our sales organization does not perform as expected, our revenues and revenue growth could suffer. In addition, if we are unable to hire, develop and retain talented sales personnel, if our sales force becomes less efficient as it grows or if new sales representatives are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to grow our client base and revenues and our sales and marketing expenses may increase.

If our referral network participants reduce their referrals to us, we may not be able to grow our client base or revenues in the future.

Referrals from third-party service providers, including 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants, represent a significant source of potential clients for our products and implementation services. For example, we estimate that more than 25% of our new sales in fiscal 2019 were referred to us from our referral network participants. In most cases, our relationships with referral network participants are informal, although in some cases, we have formalized relationships where we are a recommended vendor for their clients.

Participants in our referral network are generally under no contractual obligation to continue to refer business to us, and we do not intend to seek contractual relationships with these participants. In addition, these participants are generally not compensated for referring potential clients to us, and may choose to instead refer potential clients to our competitors. Our ability to achieve revenue growth in the future will depend, in part, upon continued referrals from our network.

There can be no assurance that we will be successful in maintaining, expanding or developing our referral network. If our relationships with participants in our referral network were to deteriorate or if any of our competitors enter into strategic relationships with our referral network participants, sales leads from these participants could be reduced or cease entirely. If we are not successful, we may lose sales opportunities and our revenues and profitability could suffer.

If the market for cloud-based payroll and HCM solutions among medium-sized organizations develops more slowly than we expect or declines, our business could be adversely affected.

We believe that the market for cloud-based payroll and HCM solutions is not as mature among medium-sized organizations as the market for outsourced services or on-premise software and services. It is not certain that cloud-based solutions will achieve and sustain high levels of client demand and market acceptance. Our success will depend to a substantial extent on the widespread adoption by medium-sized organizations of cloud-based computing in general, and of payroll and other HCM modules in particular. It is difficult to predict client adoption rates and demand for our solutions, the future growth rate and size of the cloud-based market or the entry of competitive solutions. The expansion of the cloud-based market depends on a number of factors, including the cost, performance, and perceived value associated with cloud-based computing, as well as the ability of cloud-based solutions to address security and privacy concerns. If other cloud-based providers experience security incidents, loss of client data, disruptions in delivery or other problems, the market for cloud-based applications as a whole, including our solutions, may be negatively affected. If cloud-based payroll and HCM solutions do not achieve widespread adoption among medium-sized organizations, or there is a reduction in demand for cloud-based computing caused by a lack of client acceptance, technological challenges, weakening economic conditions, public health issues such as COVID-19, security or privacy concerns, competing technologies and products, decreases in corporate spending or otherwise, it could result in a loss of clients, decreased revenues and an adverse impact on our business. Medium-sized organizations may be more adversely impacted by the COVID-19 pandemic than larger organizations in the short term because they may have less cash and less access to capital than larger organizations and therefore may not be as well positioned to react to the COVID-19 pandemic as larger organizations.

We typically pay client employees and may pay taxing authorities amounts due for a payroll period before a client's electronic funds transfers are finally settled to our account. If client payments are rejected by banking institutions or otherwise fail to clear into our accounts, we may require additional sources of short-term liquidity and our operating results could be adversely affected.

Our payroll processing business involves the movement of significant funds from the account of a client to employees and relevant taxing authorities. For example, in fiscal 2019 we processed over $134 billion in payroll transactions. Though we debit a client's account prior to any disbursement on its behalf, due to Automated Clearing House, or ACH, banking regulations, funds previously credited could be reversed under certain circumstances and timeframes after our payment of amounts due to employees and taxing and other regulatory authorities. There is therefore a risk that the employer's funds will be insufficient to cover the amounts we have already paid on its behalf. While such shortage and accompanying financial exposure has only occurred in very limited instances in the past, should clients default on their payment obligations in the future, we might be required to advance substantial amounts of funds to cover such obligations. In such an event, we may be required to seek additional sources of short-term liquidity, which may not be available on reasonable terms, if at all, and our operating results and our liquidity could be adversely affected and our banking relationships could be harmed.

If the banks that currently provide ACH and wire transfers fail to properly transmit ACH or terminate their relationship with us or limit our ability to process funds or we are not able to increase our ACH capacity with our existing and new banks, our ability to process funds on behalf of our clients and our financial results and liquidity could be adversely affected.

We currently have agreements with eleven banks to execute ACH and wire transfers to support our client payroll, benefit and tax services. The global economic slowdown resulting from the COVID-19 pandemic could also adversely impact the businesses of our third-party providers, impacting their ability to provide the services on which we rely. If one or more of the banks fails to process ACH transfers on a timely basis, or at all, then our relationship with our clients could be harmed and we could be subject to claims by a client with respect to the failed transfers. In addition, these banks have no obligation to renew their agreements with us on commercially reasonable terms, if at all. If these banks terminate their relationships with us or restrict the dollar amounts of funds that they will process on behalf of our clients, their doing so may impede our ability to process funds and could have an adverse impact on our business. Further, a disruption of the Federal Reserve Bank's services from COVID-19, including ACH processing, could negatively impact our business.

We depend on our senior management team and other key employees, and the loss of these persons or an inability to attract and retain highly skilled employees, including product development and other technical persons, could adversely affect our business.

Our success depends largely upon the continued services of our key executive officers, including Steven R. Beauchamp, our Chief Executive Officer. We also rely on our leadership team in the areas of research and development, sales, services and general and administrative functions. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. While we have employment agreements with our executive officers, including Mr. Beauchamp, these employment agreements do not require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers or key employees (including as a result of COVID-19) could have an adverse effect on our business.

We believe that to grow our business and be successful, we must continue to develop products that are technologically-advanced, are highly integrable with third-party services, provide significant mobility capabilities and have pleasing and intuitive user experiences. To do so, we must attract and retain highly qualified personnel, particularly employees with high levels of experience in designing and developing software and Internet-related products and services. Competition for these personnel in the greater Chicago area and elsewhere is intense. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed. We follow a practice of hiring the best available candidates wherever located, but as we grow our business, the productivity of our product development and other research and development may be adversely affected. In addition, if we hire employees from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources.

The sale and support of products and the performance of related services by us entail the risk of product or service liability claims, which could significantly affect our financial results.

Clients use our products in connection with the preparation and filing of tax returns and other regulatory reports. If any of our products contain errors that produce inaccurate results upon which users rely, or cause users to misfile or fail to file required information, we could be subject to liability claims from users. Our agreements with our clients typically contain provisions intended to limit our exposure to such claims, but such provisions may not be effective in limiting our exposure. Contractual limitations we use may not be enforceable and may not provide us with adequate protection against product liability claims in certain jurisdictions. A successful claim for product or service liability brought against us could result in substantial cost to us and divert management's attention from our operations.

Privacy concerns and laws or other domestic regulations may increase the cost of our solutions or reduce the effectiveness of our modules and adversely affect our business.

Our clients collect, use and store personal or identifying information regarding their employees and their family members in our solutions. Federal and state government bodies and agencies have adopted, are considering adopting, or may adopt laws and regulations regarding the collection, use, storage and disclosure of such personal information. In addition, HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and its implementing regulations, applies to our benefit administration solution, BeneFLEX, as a business associate. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to our clients' businesses may limit the use and adoption of our modules and reduce overall demand, or lead to significant fines, penalties or liabilities for any noncompliance with such privacy laws. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our solutions.

Additionally, we expect that existing laws, regulations, and standards may be interpreted in new and differing manners in the future, and may be inconsistent among jurisdictions. Future laws, regulations, standards, and other obligations, and changes in the interpretation of existing laws, regulations, standards, and other obligations could result in increased regulation, increased costs of compliance and penalties for non-compliance, and limitations on data collection, use, disclosure, and transfer for Paylocity and our clients. For example, in 2016, the European Union ("EU") and United States agreed to a framework for data transferred from the EU to the United States, called the Privacy Shield, but this new framework has been challenged by private parties and may face additional challenges by national regulators or additional private parties. Additionally, in 2016 the EU adopted a new regulation governing data privacy called the General Data Protection Regulation ("GDPR"), which became effective in May 2018. The GDPR establishes new requirements applicable to the handling of personal data and imposes penalties for non-compliance of up to 4% of worldwide revenue. California also recently enacted legislation, the California Consumer Privacy Act of 2018 ("CCPA"), effective as of January 1, 2020, that affords California residents expanded privacy protections and a private right of action for security breaches affecting their personal information. While California legislators recently amended the CCPA and the California Attorney General released draft implementing regulations for public comment, there remains uncertainty in how the CCPA will be interpreted and enforced, and privacy advocates are calling for changes to the law through a voter ballot initiative and additional amendments to the CCPA. In addition, the Illinois Biometric Information Privacy Act regulates the collection, use, safeguarding and storage of "biometric identifiers" or "biometric information" by private entities, and provides a private right of action for persons who are aggrieved by violations of the regulation. All of these legislative and regulatory initiatives may adversely affect our clients' ability to process, handle, store, use and transmit demographic and personal information regarding their employees and family members, which could reduce demand for our solutions.

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. If the processing of personal information were to be curtailed in this manner, our products would be less effective, which may reduce demand for our modules and adversely affect our business.

If third parties we work with violate applicable laws or regulations or our policies, such violations may also put our clients' content at risk and could in turn have an adverse effect on our business. Any significant change to applicable laws, regulations, or industry practices regarding the collection, use, retention, security, or disclosure of our clients' content, or regarding the manner in which the express or implied consent of clients for the collection, use, retention, or disclosure of such content is obtained, could increase our costs and require us to modify our services and features, possibly in a material manner, which we may be unable to complete, and may limit our ability to store and transmit client data or develop new services and features.

Our business could be adversely affected if we do not effectively implement and service our solutions or if we are unable to accommodate increased demand for our implementation and client services resulting from growth in our business.

Our ability to deliver our payroll and HCM solutions depends on our ability to effectively implement and to transition to, and train our clients on, our solutions. We generally do not recognize any revenue from new clients until they process their first payroll. Further, the majority of our agreements with our clients are generally terminable by the clients on 60 days' or less notice. If a client is not satisfied with our implementation services, the client could terminate its agreement with us before we have recovered our costs of implementation services, which would adversely affect our results of operations and cash flows. In addition, negative publicity related to our client relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective clients.

Once our modules are deployed, our clients depend on our client service organization to resolve issues relating to our solutions. The majority of our clients are medium-sized organizations with limited personnel and resources to address payroll and other HCM related issues. These clients rely on us more so than larger companies with greater internal resources and expertise. High-quality client services are important for the successful marketing and sale of our products and for the retention of existing clients. If we do not help our clients quickly resolve issues and provide effective ongoing support, our ability to sell additional products to existing clients would suffer and our reputation with existing or potential clients would be harmed. Our sales process is highly dependent on our modules and business reputation and on positive recommendations from our existing clients. Any failure to maintain high-quality client services, or a market perception that we do not maintain high-quality client services, could adversely affect our reputation, our ability to sell our solutions to existing and prospective clients, and our business, operating results and financial position.

In addition, we may be unable to respond quickly enough to accommodate increased client demand for implementation and client services driven by our growth. In order to ensure that we have sufficient employees to implement and service our solutions, we must closely coordinate hiring of personnel with our projected sales for a particular period. Because our sales cycle is typically only three to six weeks long, we may not be successful in coordinating hiring of implementation and client service personnel to meet increased demand for our services. Increased demand for services without a corresponding staffing increase of qualified personnel could adversely affect the quality of services provided to our clients, and our business and our reputation could be harmed.

Our software might not operate properly, which could damage our reputation, give rise to claims against us, or divert application of our resources from other purposes, any of which could harm our business and operating results.

Our payroll and HCM software is complex and may contain or develop undetected defects or errors, particularly when first introduced or as new versions are released. Despite extensive testing, from time to time we have discovered defects or errors in our products. In addition, because changes in employer and legal requirements and practices relating to benefits are frequent, we discover defects and errors in our software and service processes in the normal course of business compared against these requirements and practices. Material performance problems or defects in our products and services might arise in the future, which could have an adverse impact on our business and client relationship and subject us to claims.

Moreover, software development is time-consuming, expensive and complex. Unforeseen difficulties can arise. We might encounter technical obstacles, and it is possible that we discover problems that prevent our products from operating properly. If they do not function reliably or fail to achieve client expectations in terms of performance, clients could cancel their agreements with us and/or assert liability claims against us. This could damage our reputation, impair our ability to attract or maintain clients and harm our results of operations.

Defects and errors and any failure by us to identify and address them could result in delays in product introductions and updates, loss of revenue or market share, liability to clients or others, failure to achieve market acceptance or expansion, diversion of development and other resources, injury to our reputation, and increased service and maintenance costs. Defects or errors in our product or service processes might discourage existing or potential clients from purchasing from us. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability might be substantial and could adversely affect our operating results.

Because of the large amount of data that we collect and manage, it is possible that hardware failures or errors in our systems could result in data loss or corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our clients, their employees and taxing and other regulatory authorities regard as significant. The costs incurred in correcting any errors or in responding to regulatory authorities or to resulting claims or liability might be substantial and could adversely affect our operating results.

We maintain insurance, but our insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover all claims made against us and defending a suit, regardless of its merit, could be costly and divert management's attention.

Our clients might assert claims against us in the future alleging that they suffered damages due to a defect, error, or other failure of our product or service processes. A product liability claim and errors or omissions claim could subject us to significant legal defense costs and adverse publicity regardless of the merits or eventual outcome of such a claim.

Corporate investments and client funds that we hold are subject to market, interest rate, credit and liquidity risks. The loss of these funds could have an adverse impact on our business.

We invest portions of excess cash and cash equivalents and funds held for our clients in liquid, investment-grade marketable securities such as corporate bonds, commercial paper, asset-backed securities, U.S. treasury securities, money market securities, and other cash equivalents. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to liquidity and credit risks. Nevertheless, our corporate investments and client fund assets are subject to general market, interest rate, credit, and liquidity risks. These risks may be exacerbated, individually or in unison, during periods of unusual financial market volatility such as that we are currently experiencing as a result of the COVID-19 pandemic. Any loss of or inability to access our corporate investments or client funds could have adverse impacts on our business, client relations, liquidity, results of operations and financial condition and could require us to seek additional sources of liquidity.

In addition, funds held for clients are deposited in consolidated accounts on behalf of our clients, and as a result, the aggregate amounts in the accounts exceed the applicable federal deposit insurance limits. We believe that since such funds are deposited in trust on behalf of our clients, the Federal Deposit Insurance Corporation, or the FDIC, would treat those funds as if they had been deposited by each of the clients themselves and insure each client’s funds up to the applicable deposit insurance limits. If the FDIC were to take the position that it is not obligated to provide deposit insurance for our clients’ funds or if the reimbursement of these funds were delayed, our business and our clients could be materially harmed.

If we are required to collect sales and use taxes in additional jurisdictions, we might be subject to liability for past sales and our future sales may decrease. Adverse tax laws or regulations could be enacted or existing laws could be applied to us or our clients, which could increase the costs of our services and adversely impact our business.

The application of federal, state, and local tax laws to services provided electronically is evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services provided over the Internet. These enactments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and ultimately result in a negative impact on our operating results and cash flows.

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us (possibly with retroactive effect), which could require us or our clients to pay additional tax amounts, as well as require us or our clients to pay fines or penalties and interest for past amounts.

For example, we might lose sales or incur significant expenses if states successfully impose broader guidelines on state sales and use taxes. A successful assertion by one or more states requiring us to collect sales or other taxes on our software or provision of our services could result in substantial tax liabilities for past transactions and otherwise harm our business. Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that change over time. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, we may voluntarily engage state tax authorities in order to determine how to comply with that state’s rules and regulations. We cannot assure you that we will not be subject to sales and use taxes or related penalties for past sales in states where we currently believe no such taxes are required.

Vendors of services, like us, are typically held responsible by taxing authorities for the collection and payment of any applicable sales and similar taxes. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our services, we might be liable for past taxes in addition to taxes going forward. Liability for past taxes might also include substantial interest and penalty charges. Our clients typically pay us for applicable sales and similar taxes. Nevertheless, our clients might be reluctant to pay back taxes and might refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our clients fail or refuse to reimburse us for all or a portion of these amounts, we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on us going forward will effectively increase the cost of our services to our clients and might adversely affect our ability to retain existing clients or to gain new clients in the areas in which such taxes are imposed.

Any future litigation against us could be costly and time-consuming to defend.

We may become subject, from time to time, to legal proceedings and claims that arise in the ordinary course of business such as claims brought by our clients in connection with commercial disputes, employment claims made by our current or former employees, or lawsuits related to breaches of personal information. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, overall financial condition, and operating results. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby harming our operating results and leading analysts or potential investors to lower their expectations of our performance, which could reduce the trading price of our stock.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success is dependent, in part, upon protecting our proprietary technology. We rely on a combination of copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. Our proprietary technologies are not covered by any patent or patent application. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our products may be unenforceable under the laws of certain jurisdictions and foreign countries.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to and distribution of our products and proprietary information. The confidentiality agreements on which we rely to protect certain technologies may be breached and may not be adequate to protect our proprietary technologies. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solutions. In addition, we depend, in part, on technology of third parties licensed to us for our solutions, and the loss or inability to maintain these licenses or errors in the software we license could result in increased costs, reduced service levels or delayed sales of our solutions.

In order to protect our intellectual property rights, we may be required to spend significant resources, including cybersecurity resources, to monitor and protect these rights. Our intellectual property could be wrongfully acquired as a result of a cyberattack or other wrongful conduct by employees or third parties. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our solutions, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our solutions, or injure our reputation. In addition, we may be required to license additional technology from third parties to develop and market new solutions, and we cannot assure you that we could license that technology on commercially reasonable terms, or at all. Although we do not expect that our inability to license this technology in the future would have a material adverse effect on our business or operating results, our inability to license this technology could adversely affect our ability to compete.

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our success depends, in part, upon our not infringing upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry. From time to time, third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. In the future, others may claim that our modules and underlying technology infringe or violate their intellectual property rights. However, we may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our clients or business partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify applications, or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

The use of open source software in our products and solutions may expose us to additional risks and harm our intellectual property rights.

Some of our products and solutions use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user’s software to disclose publicly part or all of the source code to the user’s software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost.

The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts. Accordingly, there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our solutions. In that event, we could be required to seek licenses from third parties in order to continue offering our products or solutions, to re-develop our products or solutions, to discontinue sales of our products or solutions, or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs.

While we monitor the use of all open source software in our products, solutions, processes and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product or solution when we do not wish to do so, it is possible that such use may have inadvertently occurred in deploying our proprietary solutions. In addition, if a third-party software provider has incorporated certain types of open source software into software we license from such third party for our products and solutions without our knowledge, we could, under certain circumstances, be required to disclose the source code to our products and solutions. This could harm our intellectual property position and our business, results of operations and financial condition.

If third-party software used in our products is not adequately maintained or updated, our business could be materially adversely affected.

Our products utilize certain software of third-party software developers. Although we believe that there are alternatives for these products, any significant interruption in the availability of such third-party software could have an adverse impact on our business unless and until we can replace the functionality provided by these products at a similar cost. Additionally, we rely, to a certain extent, upon such third parties’ abilities to enhance their current products, to develop new products on a timely and cost-effective basis and to respond to emerging industry standards and other technological changes. We may be unable to replace the functionality provided by the third-party software currently offered in conjunction with our products in the event that such software becomes obsolete or incompatible with future versions of our products or is otherwise not adequately maintained or updated.

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our modules, and could have a negative impact on our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our modules in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, resulting in reductions in the demand for Internet-based applications such as ours.

In addition, the use of the Internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the Internet and its acceptance as a business tool has been adversely affected by "viruses," "worms" and similar malicious programs, and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the Internet is adversely affected by these issues, demand for our modules could suffer.

Furthermore, the availability or performance of our modules could be adversely affected by a number of factors, including clients' inability to access the Internet, the failure of our network or software systems, security breaches or variability in user traffic for our services. For example, our clients access our solutions through their Internet service providers. If a service provider fails to provide sufficient capacity to support our modules or otherwise experiences service outages, such failure could interrupt our clients' access to our solutions, adversely affect their perception of our modules' reliability and reduce our revenues. In addition to potential liability, if we experience interruptions in the availability of our modules, our reputation could be adversely affected and we could lose clients.

Changes in regulatory laws or requirements applicable to our software and services could impose increased costs on us, delay or prevent our introduction of new products and services, and impair the function or value of our existing products and services.

Our products and services may become subject to increasing regulatory requirements, and as these requirements proliferate, we may be required to change or adapt our products and services to comply. Changing regulatory requirements might render our products and services obsolete or might block us from developing new products and services. This might in turn impose additional costs upon us to comply or to further develop our products and services. It might also make introduction of new products and services more costly or more time-consuming than we currently anticipate. It might even prevent introduction by us of new products or services or cause the continuation of our existing products or services to become more costly. For example, the adoption of new money transmitter or money services business statutes in jurisdictions or changes in regulators' interpretation of existing state and federal money transmitter or money services business statutes or regulations, could subject us to registration or licensing or limit business activities until we are appropriately licensed. These occurrences could also require changes to the manner in which we conduct some aspects of our business or invest client funds, which could adversely impact interest income from investing client funds. Should any state or federal regulators make a determination that we have operated as an unlicensed money services business or money transmitter, we could be subject to civil and criminal fines, penalties, costs, legal fees, reputational damage or other negative consequences. In addition, if the Affordable Care Act, or ACA, is repealed or modified in whole or in part, or if implementation of certain aspects of the ACA is delayed, such repeal, modification or delay could adversely impact the revenue we currently generate from our ACA Compliance solution as well as overall gross margins. Any of these regulatory implementations or changes could have an adverse effect on our business, operating results or financial condition.

We might require additional capital to support business growth, and this capital might not be available.

We intend to continue to make investments to support our business growth and might require additional funds to respond to business challenges or opportunities, including the need to develop new products and services or enhance our existing services, enhance our operating infrastructure, and acquire complementary businesses and technologies. Accordingly, we might need to engage in equity or debt financings to secure additional funds. In addition, we may need to expand ACH capacity as we grow our business. The spread of COVID-19, however, may cause disruption and volatility in financial, lending and payments markets.

If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing or ACH facility secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital and to pursue business opportunities and to grow our business. In addition, we might not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Any adverse market conditions arising from the COVID-19 pandemic impacting our access to capital could have a material adverse effect on our business, financial condition and results of operations.

Our services present the potential for embezzlement, identity theft, or other similar illegal behavior by our associates with respect to third parties.

Certain services offered by us involve collecting payroll information from individuals, and this frequently includes information about their checking accounts. Our services also involve the use and disclosure of personal and business information that could be used to impersonate third parties, commit identity theft, or otherwise gain access to their data or funds. If any of our associates take, convert, or misuse such funds, documents or data, we could be liable for damages, and our business reputation could be damaged or destroyed. Moreover, if we fail to adequately prevent third parties from accessing personal and/or business information and using that information to commit identity theft, we might face legal liabilities and other losses than can have a negative impact on our business.

We rely on a third-party shipping provider to deliver printed checks to our clients, and therefore our business could be negatively impacted by disruptions in the operations of this third-party provider.

We rely on third-party couriers such as the United Parcel Service, or UPS, to ship printed checks to our clients. Relying on UPS and other third-party couriers puts us at risk from disruptions in their operations, such as employee strikes, inclement weather and their ability to perform tasks on our behalf. If UPS or other third-party couriers fail to perform their tasks, we could incur liability or suffer damages to our reputation, or both. If we are forced to use other third-party couriers, our costs could increase and we may not be able to meet shipment deadlines. Moreover, we may not be able to obtain terms as favorable as those we currently use, which could further increase our costs and negatively impact our business, financial condition and results of operations.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, or FASB, the Securities and Exchange Commission, or SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results including increased volatility, and could affect the reporting of transactions completed before the announcement of a change. Our accounting policies that have been or may be affected by changes in accounting principles include, but are not limited to, revenue recognition and accounting for leases.

We may acquire other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders and otherwise disrupt our operations and adversely affect our operating results.

We have acquired and may in the future seek to acquire or invest in other businesses or technologies. The pursuit of potential acquisitions or investments may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

In addition, we have limited experience in acquiring other businesses. We may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- Inability to integrate or benefit from acquired technologies or services in a profitable manner;
- Unanticipated costs or liabilities associated with the acquisition;
- Incurrence of acquisition-related costs;
- Difficulty integrating the accounting systems, operations and personnel of the acquired business;
- Difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- Difficulty converting the clients of the acquired business onto our modules and contract terms, including disparities in the revenues, licensing, support or professional services model of the acquired company;
- Diversion of management's attention from other business concerns;
- Adverse effects to our existing business relationships with business partners and clients as a result of the acquisition;
- The potential loss of key employees;
- Use of resources that are needed in other parts of our business; and
- Use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations.

Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial position may suffer.

Risks Related to Ownership of Our Common Stock

Insiders have substantial control over us, which may limit our stockholders' ability to influence corporate matters and delay or prevent a third party from acquiring control over us.

As of May 1, 2020, our directors, executive officers and holders of more than 5% of our common stock, together with their respective affiliates, beneficially owned, in the aggregate, approximately 34.1% of our outstanding common stock. This significant concentration of ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. In addition, these stockholders will be able to exercise influence over all matters requiring stockholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit the ability of our other stockholders to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other stockholders.

Our stock price may be subject to wide fluctuations.

The market price of our common stock has been and may continue to be volatile. The extent to which, and for how long, the COVID-19 pandemic may impact the economy, our clients, our business and market price of our common stock are unclear and out of our control. Additional factors that may impact our performance and market price include those discussed elsewhere in this “Risk Factors” section of this Quarterly Report on Form 10-Q and others such as:

- Our operating performance and the operating performance of similar companies;
- Announcements by us or our competitors of acquisitions, business plans or commercial relationships;
- Any major change in our board of directors or senior management;
- Publication of research reports or news stories about us, our competitors, or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- The public’s reaction to our press releases, our other public announcements and our filings with the SEC;
- Sales of our common stock by our directors, executive officers and affiliates;
- Adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- Short sales, hedging and other derivative transactions in our common stock;
- Threatened or actual litigation;
- Other events or factors, including changes in general conditions in the United States and global economies or financial markets (including acts of God, war, incidents of terrorism, or other destabilizing events and the resulting responses to them).

In addition, the stock market in general and the market for Internet-related companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company’s securities. This litigation, if instituted against us, could result in substantial costs, divert our management’s attention and resources, and harm our business, operating results, and financial condition.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have not declared or paid dividends on our common stock in the past three fiscal years and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings to fund our growth and other corporate initiatives. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future, and the success of an investment in shares of our common stock will depend upon future appreciation in its value, if any. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders purchased their shares.

Future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.

As of May 1, 2020, we had an aggregate of 53,686,172 outstanding shares of common stock. The 17,362,750 shares sold in our initial public offering, follow-on offering and secondary offering can be freely sold in the public market without restriction. The remaining shares can be freely sold in the public market, subject in some cases to volume and other restrictions under Rule 144 and 701 under the Securities Act of 1933, as amended, and various agreements.

In addition, we have registered 17,853,893 shares of common stock that we have issued and may issue under our equity plans. These shares can be freely sold in the public market upon issuance, subject in some cases to volume and other restrictions under Rules 144 and 701 under the Securities Act, and various vesting agreements. In addition, some of our employees, including some of our executive officers, have entered into 10b5-1 trading plans regarding sales of shares of our common stock. These plans provide for sales to occur from time to time. If any of these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Also, in the future, we may issue additional securities in connection with investments and acquisitions. The amount of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding stock. Due to these factors, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

If we are unable to maintain effective internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on the internal controls over financial reporting. In addition, the Sarbanes-Oxley Act requires that our management report on the internal controls over financial reporting be attested to by our independent registered public accounting firm. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. Compliance with these public company requirements has made some activities more time-consuming, costly and complicated. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

We have incurred and will continue to incur significantly increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC and the NASDAQ Global Select Market including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Compliance with these requirements has increased our legal and financial compliance costs and has made some activities more time consuming and costly. In addition, our management and other personnel have been required to divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we have incurred and will continue to incur significant expenses as well as devote substantial management effort toward ensuring ongoing compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. Although we have hired additional employees to comply with these requirements, we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge to comply with any regulatory changes.

If securities or industry analysts do not continue to publish research or publish unfavorable or misleading research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes unfavorable or misleading research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the market for our stock and demand for our stock could decrease, which could cause our stock price or trading volume to decline.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay, or prevent a change in control of our company and may affect the trading price of our common stock.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law, which apply to us, may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the stockholder becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our amended and restated certificate of incorporation and bylaws:

- Authorize the issuance of "blank check" convertible preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- Establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- Require that directors only be removed from office for cause and only upon a supermajority stockholder vote;
- Provide that vacancies on the board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders;
- Prevent stockholders from calling special meetings; and
- Prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders.

Our bylaws provide that the state and federal courts located within the state of Delaware are the sole and exclusive forums for certain legal actions involving the company or our directors, officers and employees.

On February 2, 2016, we amended our bylaws to designate the state and federal courts located within the state of Delaware as the sole and exclusive forums for claims arising derivatively, pursuant to the Delaware General Corporation Law or governed by the internal affairs doctrine. The choice of forum provision is expressly authorized by the Delaware General Corporation Law, which was amended so that companies would not have to litigate internal claims in more than one jurisdiction. If a court were to find the exclusive forum provision contained in our bylaws to be inapplicable or unenforceable, we may incur additional costs associated with resolving such extra-forum claims, which could adversely affect our business and financial condition. This bylaws provision, therefore, may dissuade or discourage claimants from initiating lawsuits or claims against us or our directors and officers in forums other than Delaware.

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.

On September 30, 2015, we completed a secondary offering of 4,301,000 shares of common stock at a price of $29.75 per share, before underwriting discounts and commissions. The offer and sale of all of the shares in the secondary offering were registered under the Securities Act pursuant to a registration statement on Form S-3 (File No. 333-206941) which was declared effective by the SEC on September 25, 2015. The Company did not receive any proceeds from the sale of common stock, as all the shares were sold by shareholders of the Company.

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	First Amended and Restated Certificate of Incorporation (filed as Exhibit 3.2 of Paylocity Holding Corporation's Form S-1 Registration Statement (Registration No. 333-193661)).
3.2	Amended and Restated Bylaws of Paylocity Holding Corporation (filed as Exhibit 3.2 of Paylocity Holding Corporation's Annual Report on Form 10-K for the year ended June 30, 2017 (File No. 001-36348)).
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.
32.2**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.
101.INS*	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*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	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:	May 8, 2020	By:	/s/ Steven R. Beauchamp
		Name:	**Steven R. Beauchamp**
		Title:	**Chief Executive Officer (Principal Executive Officer) and Director**
Date:	May 8, 2020	By:	/s/ Toby J. Williams
		Name:	**Toby J. Williams**
		Title:	**Chief Financial Officer (Principal Financial Officer)**

EXHIBIT 31.1

CERTIFICATION OF 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Steven R. Beauchamp

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

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

	/s/ Toby J. Williams
Name:	**Toby J. Williams**
Title:	**Chief Financial Officer (Principal Financial Officer)**

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

The undersigned, the Chief Executive Officer of Paylocity Holding Corporation (the “Company”), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2020 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.

Dated: May 8, 2020

/s/ Steven R. Beauchamp

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

The undersigned, the Chief Financial Officer of Paylocity Holding Corporation (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2020 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.

Dated: May 8, 2020

/s/ Toby J. Williams
Toby J. Williams
Chief Financial Officer (Principal Financial Officer)

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