UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

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

For the quarterly period ended March 31, 2022

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

For the transition period from to

Commission file number 001-36348

PAYLOCITY HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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 x No o

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	x	Accelerated Filer	o
Non-Accelerated Filer	o	Smaller Reporting Company	o
		Emerging Growth Company	o

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. o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 55,124,761 shares of Common Stock, $0.001 par value per share, as of April 29, 2022.

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

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2021	March 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 202,287	$ 96,465
Corporate investments	4,456	—
Accounts receivable, net	6,267	17,794
Deferred contract costs	44,230	54,735
Prepaid expenses and other	15,966	23,430
Total current assets before funds held for clients	273,206	192,424
Funds held for clients	1,759,677	4,324,567
Total current assets	2,032,883	4,516,991
Capitalized internal-use software, net	45,018	57,713
Property and equipment, net	59,835	64,004
Operating lease right-of-use assets	43,984	50,808
Intangible assets, net	13,027	48,245
Goodwill	33,650	102,183
Long-term deferred contract costs	170,663	209,580
Long-term prepaid expenses and other	4,223	7,910
Deferred income tax assets	11,602	21,804
Total assets	$ 2,414,885	$ 5,079,238
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,230	$ 5,051
Accrued expenses	103,109	108,820
Total current liabilities before client fund obligations	107,339	113,871
Client fund obligations	1,759,677	4,324,567
Total current liabilities	1,867,016	4,438,438
Long-term operating lease liabilities	67,201	71,178
Other long-term liabilities	1,958	2,422
Deferred income tax liabilities	1,780	1,781
Total liabilities	$ 1,937,955	$ 4,513,819
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2021 and March 31, 2022	$ —	$ —
Common stock, $0.001 par value, 155,000 shares authorized at June 30, 2021 and March 31, 2022; 54,594 shares issued and outstanding at June 30, 2021 and 55,120 shares issued and outstanding at March 31, 2022	55	55
Additional paid-in capital	241,718	256,204
Retained earnings	235,091	310,722
Accumulated other comprehensive income (loss)	66	(1,562)
Total stockholders' equity	$ 476,930	$ 565,419
Total liabilities and stockholders' equity	$ 2,414,885	$ 5,079,238

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, 2021	Three Months Ended March 31, 2022	Nine Months Ended March 31, 2021	Nine Months Ended March 31, 2022
Revenues:				
Recurring and other revenue	$ 184,927	$ 244,962	$ 465,195	$ 620,827
Interest income on funds held for clients	1,126	1,008	2,981	2,877
Total revenues	186,053	245,970	468,176	623,704
Cost of revenues	57,326	75,538	160,248	209,608
Gross profit	128,727	170,432	307,928	414,096
Operating expenses:				
Sales and marketing	40,055	52,752	115,504	154,856
Research and development	18,458	25,670	56,443	74,024
General and administrative	31,071	44,632	87,038	119,448
Total operating expenses	89,584	123,054	258,985	348,328
Operating income	39,143	47,378	48,943	65,768
Other expense	(207)	(311)	(843)	(800)
Income before income taxes	38,936	47,067	48,100	64,968
Income tax expense (benefit)	2,102	12,221	(10,836)	(10,663)
Net income	$ 36,834	$ 34,846	$ 58,936	$ 75,631
Other comprehensive loss, net of tax	(126)	(1,218)	(536)	(1,628)
Comprehensive income	$ 36,708	$ 33,628	$ 58,400	$ 74,003
Net income per share:				
Basic	$ 0.68	$ 0.63	$ 1.09	$ 1.38
Diluted	$ 0.65	$ 0.62	$ 1.05	$ 1.34
Weighted-average shares used in computing net income per share:				
Basic	54,415	55,114	54,244	54,996
Diluted	56,414	56,367	56,338	56,437

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, 2021

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances at December 31, 2020	54,370	$ 54	$ 221,525	$ 186,374	$ 265	$ 408,218
Stock-based compensation	—	—	16,663	—	—	16,663
Stock options exercised	104	—	545	—	—	545
Issuance of common stock upon vesting of restricted stock units	14	—	—	—	—	—
Net settlement for taxes and/or exercise price related to equity awards	(37)	—	(7,525)	—	—	(7,525)
Unrealized losses on securities, net of tax	—	—	—	—	(126)	(126)
Net income	—	—	—	36,834	—	36,834
Balances at March 31, 2021	54,451	$ 54	$ 231,208	$ 223,208	$ 139	$ 454,609

Three Months Ended March 31, 2022

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at December 31, 2021	55,105	$ 55	$ 231,106	$ 275,876	$ (344)	$ 506,693
Stock-based compensation	—	—	26,498	—	—	26,498
Stock options exercised	9	—	160	—	—	160
Issuance of common stock upon vesting of restricted stock units	13	—	—	—	—	—
Net settlement for taxes and/or exercise price related to equity awards	(7)	—	(1,560)	—	—	(1,560)
Unrealized losses on securities, net of tax	—	—	—	—	(1,218)	(1,218)
Net income	—	—	—	34,846	—	34,846
Balances at March 31, 2022	55,120	$ 55	$ 256,204	$ 310,722	$ (1,562)	$ 565,419

Nine Months Ended March 31, 2021

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances at June 30, 2020	53,792	$ 54	$ 227,907	$ 164,272	$ 675	$ 392,908
Stock-based compensation	—	—	48,896	—	—	48,896
Stock options exercised	338	—	2,477	—	—	2,477
Issuance of common stock upon vesting of restricted stock units	622	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	60	—	6,100	—	—	6,100
Net settlement for taxes and/or exercise price related to equity awards	(361)	—	(54,172)	—	—	(54,172)
Unrealized losses on securities, net of tax	—	—	—	—	(536)	(536)
Net income	—	—	—	58,936	—	58,936
Balances at March 31, 2021	54,451	$ 54	$ 231,208	$ 223,208	$ 139	$ 454,609

Nine Months Ended March 31, 2022

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at June 30, 2021	54,594	$ 55	$ 241,718	$ 235,091	$ 66	$ 476,930
Stock-based compensation	—	—	75,726	—	—	75,726
Stock options exercised	204	—	1,972	—	—	1,972
Issuance of common stock upon vesting of restricted stock units	549	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	53	—	7,216	—	—	7,216
Net settlement for taxes and/or exercise price related to equity awards	(280)	—	(70,428)	—	—	(70,428)
Unrealized losses on securities, net of tax	—	—	—	—	(1,628)	(1,628)
Net income	—	—	—	75,631	—	75,631
Balances at March 31, 2022	55,120	$ 55	$ 256,204	$ 310,722	$ (1,562)	$ 565,419

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,	
	2021	**2022**
Cash flows from operating activities:		
Net income	$ 58,936	$ 75,631
Adjustments to reconcile net income to net cash provided by operating activities		
Stock-based compensation expense	46,947	70,197
Depreciation and amortization expense	32,070	36,419
Deferred income tax benefit	(10,656)	(10,882)
Provision for credit losses	213	238
Net accretion of discounts and amortization of premiums on available-for-sale securities	315	342
Amortization of debt issuance costs	127	136
Other	545	286
Changes in operating assets and liabilities:		
Accounts receivable	(4,495)	(9,654)
Deferred contract costs	(39,621)	(49,205)
Prepaid expenses and other	(2,531)	(9,418)
Accounts payable	1,592	141
Accrued expenses and other	2,318	1,163
Net cash provided by operating activities	85,760	105,394
Cash flows from investing activities:		
Purchases of available-for-sale securities	—	(215,538)
Proceeds from sales and maturities of available-for-sale securities	82,488	85,875
Capitalized internal-use software costs	(21,664)	(26,285)
Purchases of property and equipment	(8,155)	(15,355)
Acquisitions of businesses, net of cash acquired	(14,992)	(107,576)
Other investing activities	—	(2,500)
Net cash provided by (used in) investing activities	37,677	(281,379)
Cash flows from financing activities:		
Net change in client fund obligations	724,610	2,564,829
Borrowings under credit facility	—	50,000
Repayment of credit facility	(100,000)	(50,000)
Proceeds from exercise of stock options	146	—
Proceeds from employee stock purchase plan	6,100	7,216
Taxes paid related to net share settlement of equity awards	(51,828)	(68,509)
Payment of debt issuance costs	(56)	(64)
Net cash provided by financing activities	578,972	2,503,472
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	702,409	2,327,487
Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of period	1,492,133	1,945,881
Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of period	$ 2,194,542	$ 4,273,368
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Purchases of property and equipment, accrued but not paid	$ —	$ 1,251
Liabilities assumed for acquisitions	$ 281	$ 4,470
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 820	$ 257
Refunds received for income taxes	$ (222)	$ (115)
Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	$ 175,453	$ 96,465
Funds held for clients' cash and cash equivalents	2,019,089	4,176,903
Total cash, cash equivalents and funds held for clients' cash and cash equivalents	$ 2,194,542	$ 4,273,368

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. 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, comprised of payroll, human capital management, workforce management, talent management, benefits, modern workforce solutions and analytics & insights, delivers a unified platform that allows clients to make strategic decisions while promoting a modern workplace and improving employee engagement.

(2) Summary of Significant Accounting Policies

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

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

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

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

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the Company's financial position, results of operations, changes in stockholders' equity and cash flows. The results of operations for three and nine months ended March 31, 2022 are not necessarily indicative of the results for the full year or the results for any future periods. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended June 30, 2021 included in the Company's Annual Report on Form 10-K.

(c) ***Income Taxes***

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

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

(d) ***Recently Issued Accounting Standards***

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

(3) Revenue

The Company derives its revenue from contracts predominantly from recurring and non-recurring service fees. While the majority of its agreements are generally cancellable by the client on 60 days' notice or less, the Company also offers term agreements to its clients, which are generally two years in length. Recurring fees are derived from payroll, timekeeping, and HR-related cloud-based computing services. The majority of the Company's recurring fees are satisfied over time as services are provided. The performance obligations related to payroll services are satisfied upon the processing of the client's payroll with the fee charged and collected based on a per employee per payroll frequency fee. The performance obligations related to time and attendance services and HR related services are satisfied over time each month with the fee charged and collected based on a per employee per month fee. For subscription-based fees which can include payroll, time and attendance, and 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.

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,	
	2021	2022	2021	2022
Recurring fees	$ 178,711	$ 236,657	$ 448,864	$ 599,513
Implementation services and other	6,216	8,305	16,331	21,314
Total revenues from contracts	$ 184,927	$ 244,962	$ 465,195	$ 620,827

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 amortizes 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,	
	2021	2022	2021	2022
Balance at beginning of the period	$ 7,065	$ 9,341	$ 8,434	$ 8,734
Deferral of revenue	5,821	9,105	11,811	18,865
Revenue recognized	(4,097)	(6,044)	(11,456)	(15,197)
Balance at end of the period	$ 8,789	$ 12,402	$ 8,789	$ 12,402

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 $4,982 in fiscal 2022, $6,127 in fiscal 2023 and $1,293 in fiscal 2024 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, 2021			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 125,817	$ 17,315	$ (7,390)	$ 135,742
Costs to fulfill a contract	55,657	8,872	(2,607)	61,922
Total	$ 181,474	$ 26,187	$ (9,997)	$ 197,664

	Three Months Ended March 31, 2022			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 155,564	$ 22,256	$ (9,182)	$ 168,638
Costs to fulfill a contract	86,115	13,825	(4,263)	95,677
Total	$ 241,679	$ 36,081	$ (13,445)	$ 264,315

	Nine Months Ended March 31, 2021			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 113,575	$ 43,026	$ (20,859)	$ 135,742
Costs to fulfill a contract	44,468	24,376	(6,922)	61,922
Total	$ 158,043	$ 67,402	$ (27,781)	$ 197,664

	Nine Months Ended March 31, 2022			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 145,718	$ 48,922	$ (26,002)	$ 168,638
Costs to fulfill a contract	69,175	37,865	(11,363)	95,677
Total	$ 214,893	$ 86,787	$ (37,365)	$ 264,315

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 $49,698 as of March 31, 2022, which will be generally recognized over the next 24 months. This balance excludes the value of unsatisfied performance obligations for contracts that have an original expected duration of one year or less and contracts for which the variable consideration is allocated entirely to wholly unsatisfied performance obligations.

4) Business Combinations

On August 31, 2021, the Company entered into an Equity Purchase Agreement (the "Purchase Agreement") with Blue Marble Payroll, LLC ("Blue Marble") and its equity holders and acquired all of the issued and outstanding equity interests of Blue Marble for cash consideration of $60,961, subject to customary purchase price adjustments. Blue Marble's payroll platform enables U.S.-based companies to manage payroll for employees outside the U.S. in line with complex local and country-specific requirements across many countries. This acquisition enables the Company to better serve its clients in managing their international workforces through a unified solution to pay employees, automate processes and stay compliant with regulations in other countries.

An entity affiliated with Steven I. Sarowitz, the Chairman of the board of directors and the largest shareholder of the Company, was the largest equity holder of Blue Marble. The board of directors of the Company appointed the Audit Committee, which is comprised solely of directors who are independent of the management of Blue Marble, the Blue Marble equity holders and the Company, to evaluate, assess and negotiate on its behalf the terms and conditions in the Purchase Agreement. The Audit Committee and the disinterested directors of the Company's board of directors unanimously approved the Purchase Agreement and transactions specified within it.

The preliminary allocation of the purchase price for Blue Marble is as follows:

	August 31, 2021
Proprietary technology	$ 21,200
Client relationships	3,000
Trade names	1,200
Goodwill	34,776
Other assets acquired	2,659
Liabilities assumed	(1,874)
Total purchase price	$ 60,961

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

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

	January 18, 2022
Proprietary technology	$ 15,800
Goodwill	33,757
Other assets acquired	3,041
Liabilities assumed	(2,596)
Total purchase price	$ 50,002

The Company accounts for business combinations in accordance with ASC 805, Business Combinations. The Company applied the acquisition method of accounting and recorded the assets acquired and liabilities assumed at their respective estimated fair values as of the dates of the acquisitions with the excess consideration paid recorded as goodwill. The fair values of assets acquired and liabilities assumed are currently provisional and are subject to change over the measurement periods as the Company continues to evaluate and analyze the estimates and assumptions used in the valuation. The measurement periods will end no later than one year from the respective acquisition dates.

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

(5) Balance Sheet Information

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

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

Balance at June 30, 2021	$ 800
Charged to expense	238
Write-offs	(183)
Balance at March 31, 2022	$ 855

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

	June 30, 2021	March 31, 2022
Capitalized internal-use software	$ 150,922	$ 182,140
Accumulated amortization	(105,904)	(124,427)
Capitalized internal-use software, net	$ 45,018	$ 57,713

Amortization of capitalized internal-use software costs is included in Cost of revenues and amounted to $6,005 and $6,308 for the three months ended March 31, 2021 and 2022, respectively, and $17,273 and $18,523 for the nine months ended March 31, 2021 and 2022, respectively.

Property and equipment, net consist of the following:

	June 30, 2021	March 31, 2022
Office equipment	$ 5,211	$ 4,365
Computer equipment	45,420	54,172
Furniture and fixtures	13,104	12,791
Software	6,641	8,278
Leasehold improvements	46,814	47,255
Time clocks rented by clients	5,399	6,423
Total	122,589	133,284
Accumulated depreciation	(62,754)	(69,280)
Property and equipment, net	$ 59,835	$ 64,004

Depreciation expense amounted to $3,966 and $4,098 for the three months ended March 31, 2021 and 2022, respectively, and $11,985 and $11,914 for the nine months ended March 31, 2021 and 2022, respectively.

The following table summarizes changes in goodwill during the nine months ended March 31, 2022:

	March 31, 2022
Balance at June 30, 2021	$ 33,650
Additions attributable to acquisitions	68,533
Balance at March 31, 2022	$ 102,183

Refer to Note 4 for further details on current year acquisitions.

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

	June 30, 2021	March 31, 2022	Weighted average useful life (years)
Proprietary technology	$ 6,129	$ 43,129	6.0
Client relationships	19,200	22,200	7.8
Non-solicitation agreements	1,600	1,600	3.1
Trade names	440	1,640	5.0
Total	27,369	68,569	
Accumulated amortization	(14,342)	(20,324)	
Intangible assets, net	$ 13,027	$ 48,245	

Amortization expense for acquired intangible assets was $1,028 and $2,630 for the three months ended March 31, 2021 and 2022, respectively, and $2,812 and $5,982 for the nine months ended March 31, 2021 and 2022, respectively.

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

Remainder of fiscal 2022	$ 2,770
Fiscal 2023	10,948
Fiscal 2024	9,943
Fiscal 2025	8,888
Fiscal 2026	7,269
Thereafter	8,427
Total	$ 48,245

The components of accrued expenses were as follows:

	June 30, 2021	March 31, 2022
Accrued payroll and personnel costs	$ 73,969	$ 67,965
Operating lease liabilities	7,549	8,270
Deferred revenue	9,442	14,326
Other	12,149	18,259
Total accrued expenses	$ 103,109	$ 108,820

(6) Corporate Investments and Funds Held for Clients

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

	June 30, 2021			
Type of Issue	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 202,287	$ —	$ —	$ 202,287
Funds held for clients' cash and cash equivalents	1,743,594	—	—	1,743,594
Available-for-sale securities:				
Corporate bonds	13,390	70	—	13,460
Asset-backed securities	7,062	17	—	7,079
Total available-for-sale securities (1)	20,452	87	—	20,539
Total investments	$ 1,966,333	$ 87	$ —	$ 1,966,420

(1) Included within the fair value of total available-for-sale securities above is $4,456 of corporate investments and $16,083 of funds held for clients.

	March 31, 2022			
Type of Issue	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 96,465	$ —	$ —	$ 96,465
Funds held for clients' cash and cash equivalents	4,176,903	—	—	4,176,903
Available-for-sale securities:				
Commercial paper	49,440	—	(113)	49,327
Corporate bonds	54,607	1	(1,289)	53,319
Asset-backed securities	8,082	—	(135)	7,947
Certificates of deposit	23,785	—	(50)	23,735
U.S treasury securities	4,036	—	(90)	3,946
U.S government agency securities	7,000	—	(372)	6,628
Other	2,823	—	(61)	2,762
Total available-for-sale securities (2)	149,773	1	(2,110)	147,664
Total investments	$ 4,423,141	$ 1	$ (2,110)	$ 4,421,032

(2) All available-for-sale securities are included in funds held for clients.

Cash and cash equivalents and funds held for clients' cash and cash equivalents include demand deposit accounts and money market funds at June 30, 2021 and March 31, 2022.

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

	June 30, 2021	March 31, 2022
Cash and cash equivalents	$ 202,287	$ 96,465
Corporate investments	4,456	—
Funds held for clients	1,759,677	4,324,567
Total investments	$ 1,966,420	$ 4,421,032

Available-for-sale securities that have been in an unrealized loss position for a period of less than 12 months as of March 31, 2022 had fair market value as follows:

	March 31, 2022	
	Securities in an unrealized loss position for less than 12 months	
	Gross unrealized losses	Fair Value
Commercial paper	$ (113)	$ 49,327
Corporate bonds	(1,289)	51,909
Asset-backed securities	(135)	7,826
Certificates of deposit	(50)	22,734
U.S. treasury securities	(90)	3,946
U.S. government agency securities	(372)	6,628
Other	(61)	2,762
Total available-for-sale securities	$ (2,110)	$ 145,132

There were no available-for-sale securities in an unrealized loss position at June 30, 2021. As a result, no securities have been in an unrealized loss position for more than 12 months as of March 31, 2022.

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

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

Expected maturities of available-for-sale securities at March 31, 2022 are as follows:

	Amortized cost	Fair value
One year or less	$ 98,775	$ 98,392
One year to two years	26,988	26,369
Two years to three years	20,000	19,138
Three years to five years	4,010	3,765
Total available-for-sale securities	$ 149,773	$ 147,664

(7) Fair Value Measurement

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

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

The Company measures certain cash and cash equivalents, accounts receivable, accounts payable and client fund obligations at fair value on a recurring basis using Level 1 inputs. The Company considers the recorded value of these financial assets and liabilities to approximate the fair value of the respective assets and liabilities at June 30, 2021 and March 31, 2022 based upon the short-term nature of these assets and liabilities.

Marketable securities, consisting of securities classified as available-for-sale as well as certain cash equivalents, are recorded at fair value on a recurring basis using Level 2 inputs obtained from an independent pricing service. Available-for-sale securities include commercial paper, corporate bonds, asset-backed securities, certificate of deposit, U.S. treasury securities, U.S. government agency and other securities. The independent pricing service utilizes a variety of inputs including benchmark yields, broker/dealer quoted prices, reported trades, issuer spreads as well as other available market data. The Company, on a sample basis, validates the pricing from the independent pricing service against another third-party pricing source for reasonableness. The Company has not adjusted any prices obtained by the independent pricing service, as it believes they are appropriately valued. There were no available-for-sale securities classified in Level 3 of the fair value hierarchy at June 30, 2021 or March 31, 2022.

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

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 202,287	$ 202,287	$ —	$ —
Funds held for clients' cash and cash equivalents	1,743,594	1,743,594	—	—
Available-for-sale securities:				
Corporate bonds	13,460	—	13,460	—
Asset-backed securities	7,079	—	7,079	—
Total available-for-sale securities	20,539	—	20,539	—
Total investments	$ 1,966,420	$ 1,945,881	$ 20,539	$ —

	March 31, 2022			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 96,465	$ 96,465	$ —	$ —
Funds held for clients' cash and cash equivalents	4,176,903	4,176,903	—	—
Available-for-sale securities:				
Commercial paper	49,327	—	49,327	—
Corporate bonds	53,319	—	53,319	—
Asset-backed securities	7,947	—	7,947	—
Certificates of deposit	23,735	—	23,735	—
U.S. treasury securities	3,946	—	3,946	—
U.S government agency securities	6,628	—	6,628	—
Other	2,762	—	2,762	—
Total available-for-sale securities	147,664	—	147,664	—
Total investments	$ 4,421,032	$ 4,273,368	$ 147,664	$ —

(8) 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 up to $375,000, subject to obtaining additional lender commitments and certain approvals and satisfying other requirements. The credit facility is scheduled to expire in July 2024. In January 2022, the Company borrowed $50,000 under the credit facility in connection with its acquisition of Cloudsnap, which it repaid prior to March 31, 2022. Refer to Note 4 for additional details on this acquisition. There were no borrowings under the credit facility at June 30, 2021 or March 31, 2022.

The proceeds of any borrowings are to be used to fund working capital, capital expenditures and general corporate purposes, including permitted acquisitions, permitted investments, permitted distributions and share repurchases. The Company may generally borrow, prepay and reborrow under the credit facility and terminate or reduce the lenders' commitments at any time prior to revolving credit facility expiration without a premium or a penalty, other than customary "breakage" costs 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, 2022, the Company was in compliance with all of the aforementioned covenants.

(9) Stock-Based Compensation

The Company maintains a 2008 Equity Incentive Plan (the "2008 Plan") and a 2014 Equity Incentive Plan (the "2014 Plan") pursuant to which the Company has reserved shares of its common stock for issuance to its employees, directors and non-employee third parties. The 2014 Plan serves as the successor to the 2008 Plan and permits the granting of restricted stock units and other equity incentives at the discretion of the compensation committee of the Company's board of directors. No new awards have been or will be issued under the 2008 Plan since the effective date of the 2014 Plan. Outstanding awards under the 2008 Plan continue to be subject to the terms and conditions of the 2008 Plan. The number of shares of common stock reserved for issuance under the 2014 Plan may increase each calendar year, continuing through and including January 1, 2024. The number of shares added each year may be equal to the lesser of (a) four and five tenths percent (4.5%) of the number of shares of common stock of the Company issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Company's board of directors. The Company's board of directors approved the increase in the number of common shares in reserve for issuance under the 2014 Plan by 2,400 shares, effective January 1, 2022.

As of March 31, 2022, the Company had 14,391 shares allocated to the plans, of which 1,999 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, 2022:

	Number of Shares
Available for grant at July 1, 2021	10,312
January 1, 2022 Evergreen provision increase	2,400
RSUs granted	(614)
MSUs granted	(47)
Shares withheld in settlement of taxes and/or exercise price	280
Forfeitures	120
Shares removed	(59)
Available for grant at March 31, 2022	12,392

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2022	2021	2022
Cost of revenues	$ 1,972	$ 2,936	$ 5,773	$ 8,860
Sales and marketing	3,938	5,119	11,783	15,994
Research and development	2,602	4,855	7,570	13,963
General and administrative	7,499	11,485	21,821	31,380
Total stock-based compensation expense	$ 16,011	$ 24,395	$ 46,947	$ 70,197

In addition, the Company capitalized $652 and $1,886 of stock-based compensation expense in its capitalized internal-use software costs in the three months ended March 31, 2021 and 2022, respectively, and $1,949 and $5,312 during the nine months ended March 31, 2021 and 2022, respectively.

In August 2020, the compensation committee of the Company’s board of directors approved the modification of the performance targets for vesting of the performance-based restricted stock units granted in fiscal 2020. The Company recorded $1,776 and $1,819 in stock-based compensation expense during the three months ended March 31, 2021 and 2022, respectively, and $4,560 and $4,877 during the nine months ended March 31, 2021 and 2022, respectively, related to these modified performance-based restricted stock units.

In March 2022, Michael Haske announced his intent to resign from his position effective September 1, 2022. In connection with his resignation, the Company’s board of directors approved a Transition and Separation Agreement and a Consulting Services Agreement whereby Mr. Haske will provide consulting services to the Company for a period of one year after the end of his employment on September 1, 2022. Pursuant to these agreements, the compensation committee of the Company's board of directors approved the modifications of certain of Mr. Haske's outstanding RSUs and MSUs to allow the awards to continue to vest after the end of his service period. As a result, the Company will record the cumulative effect of the modifications and accelerate the recognition of the remaining expense associated with certain of Mr. Haske's unmodified outstanding awards over his remaining substantive service period. The modifications of these awards did not have a material impact on the Company's financial statements.

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

	Outstanding Options			
	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Balance at July 1, 2021	765	$ 16.06	2.4	$ 133,550
Options exercised	(204)	$ 9.69		
Balance at March 31, 2022	561	$ 18.37	1.8	$ 105,094
Options vested and exercisable at March 31, 2022	561	$ 18.37	1.8	$ 105,094

The total intrinsic value of options exercised was $20,975 and $1,819 during the three months ended March 31, 2021 and 2022, respectively, and $58,252 and $49,446 during the nine months ended March 31, 2021 and 2022, respectively.

The Company grants RSUs under the 2014 Plan with terms determined at the discretion of the compensation committee of the Company’s board of directors. RSUs generally vest over three or 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/or Adjusted EBITDA margin targets. For these performance-based RSUs, the Company recognizes stock-based compensation expense based upon the probable or actual achievement of these aforementioned performance metrics.

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

	Units	Weighted average grant date fair value
RSU balance at July 1, 2021	1,388	$ 100.33
RSUs granted	614	$ 247.98
RSUs vested	(549)	$ 84.83
RSUs forfeited	(115)	$ 160.61
RSU balance at March 31, 2022	1,338	$ 169.40

At March 31, 2022, there was $113,191 of total unrecognized compensation cost, net of estimated forfeitures, related to unvested restricted stock units granted. That cost is expected to be recognized over a weighted average period of 1.9 years.

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

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

	Units	Weighted average grant date fair value
MSU balance at July 1, 2021	58	$ 178.04
MSUs granted	48	$ 361.02
MSUs forfeited	(5)	$ 178.04
MSU balance at March 31, 2022	101	$ 263.83

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

	Nine Months Ended March 31,	
	2021	2022
Valuation assumptions:		
Expected dividend yield	—%	—%
Expected volatility	52.0 %	47.4 - 47.5%
Expected term (years)	3.04	2.92 - 3.04
Risk-free interest rate	0.18%	0.43 - 0.47%

At March 31, 2022, there was $16,131 of total unrecognized compensation cost, net of estimated forfeitures, related to unvested MSUs. That cost is expected to be recognized over a period of 2.2 years.

(10) Litigation

On November 16, 2020, a potential class action complaint was filed against the Company with the Circuit Court of Cook County alleging that the Company violated the Illinois Biometric Information Privacy Act. The complaint seeks statutory damages, attorney's fees and other costs. The Company is unable to estimate any reasonably possible loss, or range of loss, with respect to this matter at this time. The Company intends to vigorously defend against this lawsuit.

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

(11) Income Taxes

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

The Company’s effective tax rate was 5.4% and 26.0% for the three months ended March 31, 2021 and 2022, respectively. The Company’s effective tax rate for the three months ended March 31, 2021 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation and state and local income taxes, partially offset by an increase to the valuation allowance. The Company's effective tax rate for the three months ended March 31, 2022 was higher than the federal statutory rate of 21% primarily due to an increase in non-deductible stock-based compensation under Internal Revenue Code Section 162(m), partially offset by research and development tax credits.

The Company's effective tax rate was (22.5)% and (16.4)% for the nine months ended March 31, 2021 and 2022, respectively. The Company's effective tax rate for the nine months ended March 31, 2021, and March 31, 2022 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation, research and development tax credits and state and local income taxes.

(12) Net Income Per Share

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares outstanding during the period and, if dilutive, potential common shares outstanding during the period. The Company’s potential common shares consist of the incremental common shares issuable upon the exercise of stock options, the release of restricted stock units and market share units, 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,	
	2021	2022	2021	2022
Numerator:				
Net income	$ 36,834	$ 34,846	$ 58,936	$ 75,631
Denominator:				
Weighted-average shares used in computing net income per share:				
Basic	54,415	55,114	54,244	54,996
Weighted-average effect of potentially dilutive shares:				
Employee stock options, restricted stock units, market share units and employee stock purchase plan shares	1,999	1,253	2,094	1,441
Diluted	56,414	56,367	56,338	56,437
Net income per share:				
Basic	$ 0.68	$ 0.63	$ 1.09	$ 1.38
Diluted	$ 0.65	$ 0.62	$ 1.05	$ 1.34

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2022	2021	2022
Market share units	—	19	—	19
Restricted stock units	1	62	13	59
Total	1	81	13	78

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 "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2021 filed with the SEC on August 6, 2021.

Overview

We are a cloud-based provider of payroll and human capital management ("HCM") software solutions. Our comprehensive product suite delivers a unified platform to create a modern workplace for our clients through automation, data-driven insights and engagement. Our product suite enables professionals to make strategic decisions in the areas of payroll, human capital management, workforce management, talent management, benefits, modern workforce solutions and analytics & insights, all while promoting a modern workplace and improving employee engagement.

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 400 related third-party systems, such as 401(k), benefits and insurance provider systems. 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 also 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.

In order to continue to grow our business over the long term, we will 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 are conducted by our wholly owned subsidiaries.

COVID-19 Impact

The novel coronavirus disease ("COVID-19") continues to impact the global economy. The duration and severity of the COVID-19 pandemic, and the long-term effects the pandemic will have on our clients and general economic conditions, remain uncertain and difficult to predict. Despite the uncertainties related to the COVID-19 pandemic, we continue to deliver strong sales performance and operational execution as the demand for our product offerings remains robust. As the end of the pandemic is difficult to predict, our business and financial performance may be unfavorably impacted in future periods. Refer to "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 6, 2021 for further discussion of the impact and possible future impacts of the COVID-19 pandemic on our business.

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 $186.1 million for the three months ended March 31, 2021 to $246.0 million for the three months ended March 31, 2022, representing a 32% year-over-year increase. Total revenues increased from $468.2 million for the nine months ended March 31, 2021 to $623.7 million for the nine months ended March 31, 2022, representing a 33% year-over-year increase. The increase in year-over-year revenue growth was driven by the strong performance by our sales team and an overall improvement in macroeconomic conditions compared to the prior year. Our revenue growth in future periods may be impacted by fluctuations in client employee counts, potential increases in client losses, a changing interest rate environment, uncertainties around market and economic conditions including inflation risk, among other factors.

Adjusted Gross Profit and Adjusted EBITDA

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

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

We define Adjusted Gross Profit as gross profit before amortization of capitalized internal-use software costs, 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,	
	2021	2022	2021	2022
	(in thousands)		(in thousands)	
Adjusted Gross Profit	$ 136,728	$ 179,764	$ 331,602	$ 442,545
Adjusted EBITDA	66,941	85,717	132,775	178,456

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022	Nine Months Ended March 31, 2021	Nine Months Ended March 31, 2022
	(in thousands)		(in thousands)	
Reconciliation from Gross Profit to Adjusted Gross Profit				
Gross profit	$ 128,727	$ 170,432	$ 307,928	$ 414,096
Amortization of capitalized internal-use software costs	6,005	6,308	17,273	18,523
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	1,996	2,978	6,401	9,832
Other items (1)	—	46	—	94
Adjusted Gross Profit	$ 136,728	$ 179,764	$ 331,602	$ 442,545

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022	Nine Months Ended March 31, 2021	Nine Months Ended March 31, 2022
	(in thousands)		(in thousands)	
Reconciliation from Net income to Adjusted EBITDA				
Net income	$ 36,834	$ 34,846	$ 58,936	$ 75,631
Interest expense	204	168	895	386
Income tax expense (benefit)	2,102	12,221	(10,836)	(10,663)
Depreciation and amortization expense	10,999	13,036	32,070	36,419
EBITDA	50,139	60,271	81,065	101,773
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	16,510	24,640	50,333	74,866
Other items (2)	292	806	1,377	1,817
Adjusted EBITDA	$ 66,941	$ 85,717	$ 132,775	$ 178,456

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

Basis of Presentation

Revenues

Recurring and other revenue

We derive the majority of our revenues from recurring fees attributable to our cloud-based 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. We charge implementation fees for professional services provided to implement our payroll and HCM solutions. Implementations of our payroll solutions typically require only one to eight weeks, depending on the size and complexity of each client, at which point the new client's payroll is first processed using our solution. We implement additional HCM products as requested by clients and leverage the data within our payroll solution to accelerate our implementation processes. Our average client size has continued to be over 100 employees.

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 substantially all of our total revenues during both the three and nine months ended March 31, 2021 and 2022.

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

Interest Income on Funds Held for Clients

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

Cost of Revenues

Cost of revenues includes costs to provide our 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 related to 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 $6.0 million and $6.3 million of capitalized internal-use software costs during the three months ended March 31, 2021 and 2022, respectively, and $17.3 million and $18.5 million of capitalized internal-used software costs during the nine months ended March 31, 2021 and 2022, respectively.

Operating Expenses

Sales and Marketing

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

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

Research and Development

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2022	2021	2022
	(in thousands)		(in thousands)	
Capitalized portion of research and development	$ 8,086	$ 10,914	$ 23,476	$ 31,218
Expensed portion of research and development	18,458	25,670	56,443	74,024
Total research and development	$ 26,544	$ 36,584	$ 79,919	$ 105,242

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

General and Administrative

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

Other Income (Expense)

Other income (expense) generally consists of interest income related to interest earned on our cash and cash equivalents 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, 2021	Three Months Ended March 31, 2022	Nine Months Ended March 31, 2021	Nine Months Ended March 31, 2022
	(in thousands)		(in thousands)	
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	$ 184,927	$ 244,962	$ 465,195	$ 620,827
Interest income on funds held for clients	1,126	1,008	2,981	2,877
Total revenues	186,053	245,970	468,176	623,704
Cost of revenues	57,326	75,538	160,248	209,608
Gross profit	128,727	170,432	307,928	414,096
Operating expenses:				
Sales and marketing	40,055	52,752	115,504	154,856
Research and development	18,458	25,670	56,443	74,024
General and administrative	31,071	44,632	87,038	119,448
Total operating expenses	89,584	123,054	258,985	348,328
Operating income	39,143	47,378	48,943	65,768
Other expense	(207)	(311)	(843)	(800)
Income before income taxes	38,936	47,067	48,100	64,968
Income tax expense (benefit)	2,102	12,221	(10,836)	(10,663)
Net income	$ 36,834	$ 34,846	$ 58,936	$ 75,631

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,	
	2021	2022	2021	2022
Consolidated Statements of Operations Data:				
Revenues:				
Recurring and other revenue	99 %	100 %	99 %	100 %
Interest income on funds held for clients	1 %	0 %	1 %	0 %
Total revenues	100 %	100 %	100 %	100 %
Cost of revenues	31 %	31 %	34 %	34 %
Gross profit	69 %	69 %	66 %	66 %
Operating expenses:				
Sales and marketing	21 %	21 %	25 %	25 %
Research and development	10 %	11 %	12 %	12 %
General and administrative	17 %	18 %	18 %	19 %
Total operating expenses	48 %	50 %	55 %	56 %
Operating income	21 %	19 %	11 %	10 %
Other expense	0 %	0 %	0 %	0 %
Income before income taxes	21 %	19 %	11 %	10 %
Income tax expense (benefit)	1 %	5 %	(2)%	(2)%
Net income	20 %	14 %	13 %	12 %

Comparison of Three Months Ended March 31, 2021 and 2022

Revenues
($ in thousands)

	Three Months Ended March 31,		Change	
	2021	2022	$	%
Recurring and other revenue	$ 184,927	$ 244,962	$ 60,035	32 %
Percentage of total revenues	99 %	100 %		
Interest income on funds held for clients	$ 1,126	$ 1,008	$ (118)	(10)%
Percentage of total revenues	1 %	0 %		

Recurring and other revenue

Recurring and other revenue for the three months ended March 31, 2022 increased by $60.0 million, or 32%, to $245.0 million from $184.9 million for three months ended March 31, 2021. Recurring and other revenue increased primarily as a result of incremental revenues from new and existing clients due to the strong performance by our sales team and improved macroeconomic conditions as compared to the prior fiscal year.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the three months ended March 31, 2022 decreased by 10% from the three months ended March 31, 2021. Interest income on funds held for clients continues to be impacted by the low interest rate environment due to the interest rate cuts by the Federal Reserve in response to the COVID-19 pandemic. The impact from the lower interest rates was partially offset by higher average daily balances for funds held due to the addition of new clients to our client base and increases in client employee counts on our platform.

Cost of Revenues
($ in thousands)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022	Change $	Change %
Cost of revenues	$ 57,326	$ 75,538	$ 18,212	32 %
Percentage of total revenues	31%	31 %		
Gross margin	69%	69 %		

Cost of Revenues

Cost of revenues for the three months ended March 31, 2022 increased by $18.2 million, or 32%, to $75.5 million from $57.3 million for the three months ended March 31, 2021. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, $10.4 million in additional employee-related costs resulting from additional personnel necessary to provide services to new and existing clients and $6.5 million in additional delivery and other processing costs.

Operating Expenses
($ in thousands)

Sales and Marketing

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022	Change $	Change %
Sales and marketing	$ 40,055	$ 52,752	$ 12,697	32 %
Percentage of total revenues	21 %	21 %		

Sales and marketing expenses for the three months ended March 31, 2022 increased by $12.7 million, or 32%, to $52.8 million from $40.1 million for the three months ended March 31, 2021. The increase in sales and marketing expense was primarily due to $9.2 million of additional employee-related costs, including those incurred to expand our sales team, and an increase in overall spending on travel and entertainment as COVID-19 pandemic restrictions eased within the United States. The increase was also driven by $1.2 million in additional marketing lead generation costs and $1.2 million of additional stock-based compensation costs associated with our equity incentive plan.

Research and Development

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022	Change $	Change %
Research and development	$ 18,458	$ 25,670	$ 7,212	39 %
Percentage of total revenues	10 %	11 %		

Research and development expenses for the three months ended March 31, 2022 increased by $7.2 million, or 39%, to $25.7 million from $18.5 million for the three months ended March 31, 2021. The increase in research and development expenses was primarily due to $6.3 million of additional employee-related costs related to additional development personnel and $2.3 million of additional stock-based compensation costs associated with our equity incentive plan, partially offset by higher period-over-period capitalized internal-use software costs of $1.6 million.

General and Administrative

	Three Months Ended March 31,		Change	
	2021	2022	$	%
General and administrative	$ 31,071	$ 44,632	$ 13,561	44 %
Percentage of total revenues	17 %	18 %		

General and administrative expenses for the three months ended March 31, 2022 increased by $13.6 million, or 44%, to $44.6 million from $31.1 million for the three months ended March 31, 2021. The increase in general and administrative expense was primarily due to $3.2 million in additional employee-related costs, $3.0 million in additional 401(k) expense, $4.0 million of additional stock-based compensation associated with our equity incentive plan and $1.6 million in additional amortization related to acquired intangible assets.

Other Expense

	Three Months Ended March 31,		Change	
	2021	2022	$	%
Other expense	(207)	(311)	$ (104)	50 %
Percentage of total revenues	0 %	0 %		

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

Income Taxes

Our effective tax rate was 5.4% and 26.0% for the three months ended March 31, 2021 and 2022, respectively. Our effective tax rate for the three months ended March 31, 2021 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation and state and local income taxes, partially offset by an increase to the valuation allowance. Our effective tax rate for the three months ended March 31, 2022 was higher than the federal statutory rate of 21% primarily due to an increase in non-deductible stock-based compensation under Internal Revenue Code Section 162(m), partially offset by research and development tax credits.

Comparison of Nine Months Ended March 31, 2021 and 2022

Revenues
($ in thousands)

	Nine Months Ended March 31,		Change	
	2021	2022	$	%
Recurring and other revenue	$ 465,195	$ 620,827	$ 155,632	33 %
Percentage of total revenues	99 %	100 %		
Interest income on funds held for clients	$ 2,981	$ 2,877	$ (104)	(3)%
Percentage of total revenues	1 %	0 %		

Recurring and other revenue

Recurring and other revenue for the nine months ended March 31, 2022 increased by $155.6 million, or 33%, to $620.8 million from $465.2 million for nine months ended March 31, 2021. Recurring and other revenue increased primarily as a result of incremental revenues from new and existing clients due to the strong performance by our sales team and improved macroeconomic conditions compared to the prior fiscal year.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the nine months ended March 31, 2022 decreased by 3% from the nine months ended March 31, 2021. Interest income on funds held for clients continues to be impacted by the low interest rate environment due to the interest rate cuts by the Federal Reserve in response to the COVID-19 pandemic. The impact from the lower interest rates was partially offset by higher average daily balances for funds held due to the addition of new clients to our client base and increases in client employee counts on our platform.

Cost of Revenues
($ in thousands)

	Nine Months Ended March 31,		Change	
	2021	2022	$	%
Cost of revenues	$ 160,248	$ 209,608	$ 49,360	31 %
Percentage of total revenues	34%	34 %		
Gross margin	66%	66 %		

Cost of Revenues

Cost of revenues for the nine months ended March 31, 2022 increased by $49.4 million, or 31%, to $209.6 million from $160.2 million for the nine months ended March 31, 2021. Cost of revenues increased primarily as a result of the continued growth of our business, in particular, $29.7 million in additional employee-related costs resulting from additional personnel necessary to provide services to new and existing clients, $15.4 million related to delivery and other processing costs and $3.1 million of additional stock-based compensation costs associated with our equity incentive plan.

Operating Expenses
($ in thousands)

Sales and Marketing

	Nine Months Ended March 31,		Change	
	2021	2022	$	%
Sales and marketing	$ 115,504	$ 154,856	$ 39,352	34 %
Percentage of total revenues	25 %	25 %		

Sales and marketing expenses for the nine months ended March 31, 2022 increased by $39.4 million, or 34%, to $154.9 million from $115.5 million for the nine months ended March 31, 2021. The increase in sales and marketing expense was primarily attributable to $26.6 million in additional employee-related costs, including those incurred to expand our sales team, and an increase in overall spending on travel and entertainment as COVID-19 pandemic restrictions eased within the United States. The increase was also driven by $4.6 million in additional marketing lead generation costs and $4.2 million of additional stock-based compensation costs associated with our equity incentive plan.

Research and Development

	Nine Months Ended March 31,		Change	
	2021	2022	$	%
Research and development	$ 56,443	$ 74,024	$ 17,581	31 %
Percentage of total revenues	12 %	12 %		

Research and development expenses for the nine months ended March 31, 2022 increased by $17.6 million, or 31%, to $74.0 million from $56.4 million for the nine months ended March 31, 2021. The increase in research and development expenses was primarily the result of $14.5 million of additional employee-related costs related to additional development personnel and $6.4 million of additional stock-based compensation costs associated with our equity incentive plan, partially offset by higher period-over-period capitalized internal-use software costs of $3.9 million.

General and Administrative

	Nine Months Ended March 31,				Change			
	2021		2022		$		%
General and administrative	$	87,038	$	119,448	$	32,410	37 %
Percentage of total revenues		18 %		19 %			

General and administrative expenses for the nine months ended March 31, 2022 increased by $32.4 million, or 37%, to $119.4 million from $87.0 million for the nine months ended March 31, 2021. The increase in general and administrative expense was primarily due to $8.8 million in additional 401(k) expense and $8.1 million in additional employee-related costs, $9.6 million of additional stock-based compensation associated with our equity incentive plan and $3.2 million in additional amortization of acquired intangible assets.

Other Expense

	Nine Months Ended March 31,		Change		
	2021	2022	$		%
Other expense	(843)	(800)	$	43	(5)%
Percentage of total revenues	0 %	0 %			

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

Income Taxes

Our effective tax rate was (22.5)% and (16.4)% for the nine months ended March 31, 2021 and 2022, respectively. Our effective tax rate for the nine months ended March 31, 2021 and March 31, 2022 was lower than the federal statutory rate of 21% primarily due to excess tax benefits from employee stock-based compensation, research and development tax credits and state and local income taxes.

Quarterly Trends and Seasonality

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

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

Critical Accounting Policies and Estimates

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

Accounting estimates used in the preparation of these consolidated financial statements change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Our critical accounting policies and use of estimates are disclosed in our audited consolidated financial statements for the year ended June 30, 2021 included in our Annual Report on Form 10-K filed with the SEC on August 6, 2021.

Liquidity and Capital Resources

Our primary liquidity needs are related to the funding of general business requirements, including working capital requirements, research and development, and capital expenditures. As of March 31, 2022, our principal source of liquidity was $96.5 million of cash and cash equivalents. In July 2019, we entered into and currently maintain a five-year revolving credit agreement. This credit agreement provides for a $250.0 million senior revolving credit facility which may be increased up to $375.0 million. In January 2022, we borrowed $50.0 million in connection with our acquisition of Cloudsnap, Inc., which we repaid prior to March 31, 2022. Refer to Note 4 of the Notes to the Unaudited Consolidated Financial Statements for additional details on this acquisition.

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

In order to grow our business, we intend to increase our personnel and related expenses and to make significant investments in our platform, data centers and general infrastructure. The timing and amount of these investments will vary based on our financial condition, the rate at which we add new clients and new personnel and the scale of our module development, data centers and other activities. Many of these investments will occur in advance of 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 or utilize the borrowing capacity under our credit facility to satisfy those needs.

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

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

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

	Nine Months Ended March 31, 2021	Nine Months Ended March 31, 2022
Net cash provided by operating activities	$ 85,760	$ 105,394
Cash flows from investing activities:		
Purchases of available-for-sale securities	—	(215,538)
Proceeds from sales and maturities of available-for-sale securities	82,488	85,875
Capitalized internal-use software costs	(21,664)	(26,285)
Purchases of property and equipment	(8,155)	(15,355)
Acquisitions of businesses, net of cash acquired	(14,992)	(107,576)
Other investing activities	—	(2,500)
Net cash provided by (used in) investing activities	37,677	(281,379)
Cash flows from financing activities:		
Net change in client fund obligations	724,610	2,564,829
Borrowings under credit facility	—	50,000
Repayment of credit facility	(100,000)	(50,000)
Proceeds from exercise of stock options	146	—
Proceeds from employee stock purchase plan	6,100	7,216
Taxes paid related to net share settlement of equity awards	(51,828)	(68,509)
Payment of debt issuance costs	(56)	(64)
Net cash provided by financing activities	578,972	2,503,472
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	702,409	2,327,487

Operating Activities

Net cash provided by operating activities was $85.8 million and $105.4 million for the nine months ended March 31, 2021 and 2022, respectively. The increase in net cash provided by operating activities from the nine months ended March 31, 2021 to the nine months ended March 31, 2022 was primarily due to improved operating results after adjusting for non-cash items including stock-based compensation expense, depreciation and amortization expense and deferred income tax benefit, partially offset by net changes in operating assets and liabilities during the nine months ended March 31, 2022 as compared to the nine months ended March 31, 2021.

Investing Activities

Net cash provided by (used in) investing activities was $37.7 million and $(281.4) million for the nine months ended March 31, 2021 and 2022, respectively. The net cash provided by (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 provided by (used in) investing activities was primarily due to purchases of available-for-sale securities of $215.5 million and $92.6 million of additional amounts paid for acquisitions, net of cash acquired, during the nine months ended March 31, 2022 as compared to the nine months ended March 31, 2021.

Financing Activities

Net cash provided by financing activities was $579.0 million and $2,503.5 million for the nine months ended March 31, 2021 and 2022, respectively. The increase in net cash provided by financing activities was primarily the result of an increase in the change in client fund obligations of $1,840.2 million due to the timing of client funds collected and related remittance of those funds to client employees and taxing authorities during the nine months ended March 31, 2022 as compared to the nine months ended March 31, 2021.

Contractual Obligations and Commitments

Our principal commitments consist of operating lease obligations. The following table summarizes our contractual obligations at March 31, 2022:

	Payment Due By Fiscal Period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating lease obligations	$ 93,468	$ 10,760	$ 19,847	$ 19,014	$ 43,847
Purchase obligations	28,139	15,967	8,664	3,508	—
	$ 121,607	$ 26,727	$ 28,511	$ 22,522	$ 43,847

Capital Expenditures

We expect to continue to invest in capital spending as we continue to grow our business and expand and enhance our operating facilities, data centers and technical infrastructure. Future capital requirements will depend on many factors, including our rate of sales growth. In the event that our sales growth or other factors do not meet our expectations, we may eliminate or curtail capital projects in order to mitigate the impact on our use of cash. Capital expenditures were $8.2 million and $15.4 million for the nine months ended March 31, 2021 and 2022, respectively, exclusive of capitalized internal-use software costs of $21.7 million and $26.3 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 primarily in the United States and are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate and certain other exposures 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 disrupted the global economy and financial markets and may unfavorably impact our future business and financial performance. Refer to "Part I. Item 1A. Risk Factors" on our Annual Report on Form 10-K filed with the SEC on August 6, 2021 for risks related to our business.

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

Interest Rate Risk

As of March 31, 2022, we had cash and cash equivalents of $96.5 million and funds held for clients of $4,324.6 million. We did not hold corporate investments on our balance sheet as of March 31, 2022. We deposit our cash and cash equivalents and significant portions of our funds held for clients in demand deposit accounts with various financial institutions. We invest portions of our excess cash and cash equivalents and funds held for clients in marketable securities including commercial paper, corporate debt issuances, asset-backed debt securities, certificates of deposit, U.S. government agency securities and other which were classified as available-for-sale securities as of March 31, 2022. Our investment policy is focused on generating higher yields from these investments while preserving liquidity and capital. However, as a result of our investing activities, we are exposed to changes in interest rates that may materially affect our financial statements.

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

Based upon a sensitivity model that measures market value changes caused by interest rate fluctuations, an immediate 100-basis point change in interest rates would have had an immaterial effect on the market value of our available-for-sale securities as of March 31, 2022. Fluctuations in the value of our available-for-sale securities caused by changes in interest rates are recorded in other comprehensive income and are only realized if we sell the underlying securities.

Additionally, as described in Note 8 of the Notes to the Unaudited Consolidated Financial Statements, we entered into a 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 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, 2022, there were no amounts drawn on the credit facility. To the extent that we draw additional amounts under the credit facility, we may be exposed to increased market risk from changes in the underlying index rates, which affects our interest expense.

Inflation Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in our risk factors disclosed in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2021 filed with the SEC on August 6, 2021.

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

(a) Sales of Unregistered Securities

Not applicable.

(b) Use of Proceeds

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

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

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On May 2, 2022, the compensation committee of the board of directors of Paylocity Holding Corporation (the "Company") approved a form of agreement for use in connection with the issuance of restricted stock units to executive officers of the Company under the Company's 2014 Equity Incentive Plan (the "Plan"), which is attached hereto as Exhibit 10.5, and the terms thereof are incorporated herein by reference. The board and the compensation committee have discretion to alter the terms of such form agreement, subject to the limitations set forth in the Plan.

Item 6. Exhibits

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

INDEX TO EXHIBITS

Exhibit Nos.	Description
3.1	Second Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 of Paylocity Holding Corporation's Current Report on Form 8-K on December 3, 2021 (Registration No. 001-36348)).
3.2	Second Amended and Restated Bylaws of Paylocity Holding Corporation (filed as Exhibit 3.2 of Paylocity Holding Corporation's Current Report on Form 8-K on December 3, 2021 (File No. 001-36348)).
10.1	Amendment to Executive Employment Agreement dated as of March 11, 2022 by and between Paylocity Corporation and Toby Williams (filed as Exhibit 10.1 of Paylocity Holding Corporation's Current Report on Form 8-K on March 14, 2022 (File No. 001-36348)).
10.2	Amended and Restated Executive Employment Agreement dated as of March 11, 2022 by and between Paylocity Corporation and Ryan Glenn (filed as Exhibit 10.2 of Paylocity Holding Corporation's Current Report on Form 8-K on March 14, 2022 (File No. 001-36348)).
10.3	Transition and Separation Agreement dated as of March 11, 2022 by and between Paylocity Corporation and Michael Haske (filed as Exhibit 10.3 of Paylocity Holding Corporation's Current Report on Form 8-K on March 14, 2022 (File No. 001-36348)).
10.4	Consulting Services Agreement dated as of March 11, 2022 by and between Paylocity Corporation and Michael Haske (filed as Exhibit 10.4 of Paylocity Holding Corporation's Current Report on Form 8-K on March 14, 2022 (File No. 001-36348)).
10.5*	Form of Restricted Stock Units Notice of Grant and Award Agreement under the 2014 Equity Incentive Plan.
31.1*	Certification of Co-Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Co-Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-4 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Co-Chief Executive Officer.
32.2**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Co-Chief Executive Officer.
32.3**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.
101.INS*	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 6, 2022	By:	/s/ Steven R. Beauchamp
		Name:	**Steven R. Beauchamp**
		Title:	**Co-Chief Executive Officer (Principal Executive Officer) and Director**
Date:	May 6, 2022	By:	/s/ Toby J. Williams
		Name:	**Toby J. Williams**
		Title:	**President, Co-Chief Executive Officer (Principal Executive Officer) and Director**
Date:	May 6, 2022	By:	/s/ Ryan Glenn
		Name:	**Ryan Glenn**
		Title:	**Chief Financial Officer and Treasurer (Principal Financial Officer)**

Exhibit 10.5

Form of Executive RSU Award Agreement

PAYLOCITY HOLDING CORPORATION
RESTRICTED STOCK UNITS AGREEMENT
(For U.S. Participants)

Paylocity Holding Corporation has granted to the Participant named in the *Notice of Grant of Restricted Stock Units* (the ***"Grant Notice"***) to which this Restricted Stock Units Agreement (the ***"Agreement"***) is attached an Award consisting of Restricted Stock Units (each a ***"Unit"***) subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to and shall in all respects be subject to the terms and conditions of the Paylocity Holding Corporation 2014 Equity Incentive Plan (the ***"Plan"***), as amended to the Date of Grant, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan and a prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of the shares issuable pursuant to the Award (the ***"Plan Prospectus"***), (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. **ADMINISTRATION.**

All questions of interpretation concerning the Grant Notice, this Agreement, the Plan or any other form of agreement or other document employed by the Company in the administration of the Plan or the Award shall be determined by the Committee. All such determinations by the Committee shall be final, binding and conclusive upon all persons having an interest in the Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or the Award or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest in the Award. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

3. **THE AWARD.**

3.1 **Grant of Units.** On the Date of Grant, the Participant shall acquire, subject to the provisions of this Agreement, the Total Number of Units set forth in the Grant Notice, subject to adjustment as provided in Section 10. Each Unit represents a right to receive on a date determined in accordance with the Grant Notice and this Agreement one (1) share of Stock.

3.2 **No Monetary Payment Required.** The Participant is not required to make any monetary payment (other than applicable tax withholding, if any) as a condition to receiving the Units or shares of Stock issued upon settlement of the Units, the consideration for which shall be past services actually rendered or future services to be rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock issued upon settlement of the Units.

4. **VESTING OF UNITS**.

Units acquired pursuant to this Agreement shall become Vested Units as provided in the Grant Notice. In addition, Units acquired pursuant to this Agreement shall become Vested Units upon the Participant's death or Disability (defined below) to the extent they have not otherwise become Vested Units. For purposes of determining the number of Vested Units following an Ownership Change Event, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after the Ownership Change Event. "Disability," for purposes of accelerating vesting, means the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code.

5. **COMPANY REACQUISITION RIGHT.**

5.1 **Grant of Company Reacquisition Right.** Except to the extent otherwise provided by the Superseding Agreement, if any, in the event that the Participant's Service terminates for any reason or no reason, with or without cause, the Participant shall forfeit and the Company shall automatically reacquire all Units which are not, as of the time of such termination, Vested Units (***"Unvested Units")***, and the Participant shall not be entitled to any payment therefor (the ***"Company Reacquisition Right"***).

5.2 **Ownership Change Event, Non-Cash Dividends, Distributions and Adjustments.** Upon the occurrence of an Ownership Change Event, a dividend or distribution to the stockholders of the Company paid in shares of Stock or other property, or any other adjustment upon a change in the capital structure of the Company as described in Section 10, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) to which the Participant is entitled by reason of the Participant's ownership of Unvested Units shall be immediately subject to the Company Reacquisition Right and included in the terms "Units" and "Unvested Units" for all purposes of the Company Reacquisition Right with the same force and effect as the Unvested Units immediately prior to the Ownership Change Event, dividend, distribution or adjustment, as the case may be. For purposes of determining the number of Vested Units following an Ownership Change Event, dividend, distribution or adjustment, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after any such event.

6. **SETTLEMENT OF THE AWARD.**

6.1 **Issuance of Shares of Stock.** Subject to the provisions of Section 6.3, the Company shall issue to the Participant on the Settlement Date with respect to each Vested Unit to be settled on such date one (1) share of Stock. The Settlement Date with respect to a Unit shall be the date on which such Unit becomes a Vested Unit as provided by the Grant Notice (an *"**Original Settlement Date**"*); provided, however, that if the Original Settlement Date would occur on a date on which a sale by the Participant of the shares to be issued in settlement of the Vested Units would violate the Trading Compliance Policy of the Company, the Settlement Date for such Vested Units shall be deferred until the next day on which the sale of such shares would not violate the Trading Compliance Policy, but in any event on or before the 15th day of the third calendar month following calendar year of the Original Settlement Date. Shares of Stock issued in settlement of Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 6.3, Section 8 or the Company's Trading Compliance Policy.

6.2 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit any or all shares acquired by the Participant pursuant to the settlement of the Award with the Company's transfer agent, including any successor transfer agent, to be held in book entry form, or to deposit such shares for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice. Except as provided by the foregoing, a certificate for the shares acquired by the Participant shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

6.3 **Restrictions on Grant of the Award and Issuance of Shares.** The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

6.4 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the settlement of the Award.

7. **PARTICIPANT COVENANTS.**

7.1 **Covenant Not to Disclose.** The Participant acknowledges that as a result of the Participant's employment with Paylocity Corporation, an Illinois corporation ("***Paylocity***"), the Participant has gained access to Paylocity's Confidential Information (defined below). During the Participant's employment and thereafter, the Participant will not use, disclose, or reveal to any person any Confidential Information except when acting within the scope of the Participant's duties or with prior written authorization from Paylocity's Chief Human Resources Officer.

(a) ***Confidential Information.*** The term "***Confidential Information***" shall mean all information belonging to, or otherwise relating to the business of Paylocity, which is not generally known, regardless of the manner in which it is stored or conveyed to the Participant, and which Paylocity has taken reasonable measures under the circumstances to protect from unauthorized use or disclosure, including, without limitation, Paylocity's trade secrets, intellectual property, customer and employee information, pricing information, business and marketing strategies, proprietary information and know-how, unpublished or pending patent applications and all related patent rights, discoveries, software code, formulas and processes relating to Paylocity's business. Confidential Information does not include information that: (i) was generally known to the relevant public at the time of disclosure through no fault of the participant; (ii) was lawfully received by the Participant from a third party; (iii) was known to the Participant prior to receipt from Paylocity; or (iv) was independently developed by the Participant or independent third parties. In each of the foregoing circumstances, this exception applies only if such public knowledge or possession by an independent third party was without breach by the Participant or any third party of any obligation of confidentiality or non-use, including the obligations and restrictions provided in this Agreement.

(b) ***Scope of Non-Disclosure; Return of Company Property*.** Nothing in this Section shall be deemed to limit the Participant's non-disclosure obligations under any applicable rule, statute, regulation, agreement or other Paylocity policy, or to prevent the Participant from providing truthful information to a government authority or in response to a valid subpoena or other court process. Upon termination of the Participant's employment with Paylocity for any reason, the Participant will immediately return to Paylocity all Paylocity property, including, without limitation, all Confidential Information. The Participant understands that the Participant shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (a) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

7.2 **Covenants Not to Solicit.**

(a) ***Customer Non-Solicitation.*** During employment with Paylocity and for a period of twenty-four (24) months following the termination of employment for any reason, the Participant agrees not to directly or indirectly contact, solicit or accept business from any of Paylocity's customers, prospective customers, brokers, brokerage firms, business partners, business associates, or end users, with whom the Participant had direct or indirect contact or solicited on behalf of Paylocity in the twelve (12) months prior to the Participant's termination, for the purpose of selling or soliciting products or services that are in competition with the products or services of Paylocity.

(b) ***Employee Non-Solicitation.*** During employment with Paylocity and for a period of twenty-four (24) months following the termination of employment for any reason, the Participant agrees not to directly or indirectly contact, solicit or recruit any employees or exclusive independent contractors of Paylocity with whom the Participant worked or had contact during the twelve (12) months preceding the termination of the Participant's employment, for the purpose of causing, inviting or encouraging any such employee to (i) to terminate his or her employment or business relationship with Paylocity; and/or (ii) to become employed or engaged by a person or entity that sells Competing Products (as defined below).

7.3 **Covenant Not To Compete.** During employment with Paylocity and for a period of twelve (12) months following the termination of employment for any reason, the Participant agrees not to directly or indirectly, on behalf of Participant or in conjunction with any other person or entity: (i) own any business (other than less than 3% ownership in a publicly traded company) that sells Competing Products in the Restricted Territory; or (ii) work in the Restricted Territory (whether as an employee, independent contractor, consultant, or otherwise) for any person or entity that sells Competing Products, in any role: (y) that is similar to any position I held with the Company during the twenty-four (24) months preceding the termination of the Participant's employment, or (z) in which it would be beneficial for the Participant to use or rely upon Paylocity's Confidential Information. The term "***Competing Products***" shall mean products or services sold by Paylocity, or any prospective product or service Paylocity took steps to develop, and for which the Participant had any responsibility during the twenty-four (24) months preceding the termination of the Participant's employment, including, without limitation, any products or services related to software solutions for payroll, human capital management, human resources, benefits, time and labor, and talent management. The term "***Restricted Territory***" shall mean the geographic territory over which the Participant had responsibility during the twenty-four (24) months preceding the termination of the Participant's employment.

7.4 **Acknowledgments.** The Participant acknowledges that: (i) the covenants of this Section 7 are supported by sufficient consideration, including access to Paylocity's Legitimate Business Interests (defined below), and the Units awarded under this Agreement; (ii) Paylocity has invested substantial resources into the development, protection and retention of its Confidential Information, employees, customers, and business (collectively, "***Legitimate Business Interests***"); (iii) the Legitimate Business Interests have significant intrinsic value and are not readily achieved or duplicated; (iv) solely as a result of the Participant's employment with Paylocity, the Participant has gained access to and familiarity with the Legitimate Business Interests; (v) the covenants of this Section 7 are therefore reasonable and necessary to protect the Legitimate Business Interests, and they are enforceable; and (vi) the provisions of this Section 7 do not restrain competition, limit the Participant's ability to obtain employment of the Participant's choosing or affect the Participant's wages.

7.5 **Remedies and Relief.** In the event of any breach by the Participant of the provisions of this Section 7: (i) the Company shall have the right to require the Participant to deliver to the Company: (a) all Units granted to the Participant in the three (3) years preceding said breach; and (b) to the extent the Participant has disposed of any Units so granted or shares of Stock issued in settlement of such Units, the net proceeds from all such dispositions; and (ii) any unvested Units shall be immediately forfeited (collectively, the "***Repayment Obligation***"). The determination of whether the Participant has engaged in a breach of Section 7 shall be determined by the Committee in its sole discretion. Any repayment obligations under this Section 7 shall be effected by the Participant within thirty (30) days of receipt of the Company's written demand for repayment. The Company may provide for an offset to any future payments owed by the Participating Company Group to the Participant, if necessary, to satisfy the Repayment Obligation. The Participant agrees to execute such documents as may be necessary to effect the repayment obligations referred to in this Section. Nothing in this Section 7 shall limit Paylocity from pursuing any other remedies otherwise available in law or in equity, including a temporary retaining order, a preliminary injunction, and a permanent injunction enjoining Participant's breach or threatened breach of any of the provisions of this Agreement or from seeking enforcement of any other restrictions by which the Participant is bound under other agreements or applicable law.

7.6 **Severability.** If any provision of this Agreement is held to be unenforceable, such provision will be distinct and severable from the other provisions of this Agreement, and such unenforceability will not affect the validity and enforceability of the remaining provisions. If a court holds that the duration, scope, geographic range or any other restriction stated in any provision of this Agreement is unreasonable under circumstances then existing, the parties agree that the maximum duration, scope, geographic range or other restriction that the court deems reasonable under such circumstances will be substituted and that the court will have the power to revise any of those restrictions to cover the maximum period, scope, geographic range and/or other restriction permitted by law. It is the intent of the parties that the court, in establishing any such substitute restriction, recognize that the parties' desire is that the stated restrictions upon which the parties have agreed be honored to the maximum lawful extent.

7.7 **Tolling**. The restricted time periods in Section 7 shall be tolled during any time period that Participant is in violation of such covenants, as determined by a court of competent jurisdiction, so that Paylocity may realize the full benefit of its bargain. This tolling shall include any time period during which litigation is pending, and during which Participant has continued to violate such protective covenants.

8. **TAX WITHHOLDING.**

8.1 **In General.** At the time the Grant Notice is executed, or at any time thereafter as requested by a Participating Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax (including any social insurance) withholding obligations of the Participating Company, if any, which arise in connection with the Award, the vesting of Units or the issuance of shares of Stock in settlement thereof. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Participating Company have been satisfied by the Participant.

8.2 **Assignment of Sale Proceeds.** Subject to compliance with applicable law and the Company's Trading Compliance Policy, if permitted by the Company, the Participant may satisfy the Participating

Company's tax withholding obligations in accordance with procedures established by the Company providing for delivery by the Participant to the Company or a broker approved by the Company of properly executed instructions, in a form approved by the Company, providing for the assignment to the Company of the proceeds of a sale with respect to some or all of the shares being acquired upon settlement of Units.

8.3 **Withholding in Shares.** The Company shall have the right, but not the obligation, to require the Participant to satisfy all or any portion of a Participating Company's tax withholding obligations by deducting from the shares of Stock otherwise deliverable to the Participant in settlement of the Award a number of whole shares having a fair market value, as determined by the Company as of the date on which the tax withholding obligations arise, not in excess of the amount of such tax withholding obligations determined by the applicable minimum statutory withholding rates.

9. **EFFECT OF CHANGE IN CONTROL.**

In the event of a Change in Control, except to the extent that the Committee determines to cash out the Award in accordance with Section 13.1(c) of the Plan, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "***Acquiror***"), may, without the consent of the Participant, assume or continue in full force and effect the Company's rights and obligations under all or any portion of the outstanding Units or substitute for all or any portion of the outstanding Units substantially equivalent rights with respect to the Acquiror's stock. For purposes of this Section, a Unit shall be deemed assumed if, following the Change in Control, the Unit confers the right to receive, subject to the terms and conditions of the Plan and this Agreement, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon settlement of the Unit to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. The Award shall terminate and cease to be outstanding effective as of the time of consummation or the Change in Control to the extent that Units subject to the Award are neither assumed or continued by the Acquiror in connection with the Change in Control nor settled as of the time of the Change in Control.

10. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company and the requirements of Section 409A of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number of Units subject to the Award and/or the number and kind of shares or other property to be issued in settlement of the Award, in order to prevent dilution or enlargement of the Participant's rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) to which the Participant is entitled by reason of ownership of Units acquired pursuant to this Award will be immediately subject to the provisions of this Award on the same basis as all Units originally acquired hereunder. Any fractional Unit or share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

11. **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.**

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the shares are issued, except as provided in Section 10. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant's Service at any time.

12. **<u>LEGENDS</u>.**

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section.

13. **<u>COMPLIANCE WITH SECTION 409A</u>.**

It is intended that any election, payment or benefit which is made or provided pursuant to or in connection with this Award that may result in Section 409A Deferred Compensation shall comply in all respects with the applicable requirements of Section 409A (including applicable regulations or other administrative guidance thereunder, as determined by the Committee in good faith) to avoid the unfavorable tax consequences provided therein for non-compliance. In connection with effecting such compliance with Section 409A, the following shall apply:

13.1 **Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Participant's termination of Service which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the ***"Section 409A Regulations"***) shall be paid unless and until the Participant has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Participant is a "specified employee" within the meaning of the Section 409A Regulations as of the date of the Participant's separation from service, no amount that constitutes a deferral of compensation which is payable on account of the Participant's separation from service shall be paid to the Participant before the date (the ***"Delayed Payment Date"***) which is first day of the seventh month after the date of the Participant's separation from service or, if earlier, the date of the Participant's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

13.2 **Other Changes in Time of Payment.** Neither the Participant nor the Company shall take any action to accelerate or delay the payment of any benefits under this Agreement in any manner which would not be in compliance with the Section 409A Regulations.

13.3 **Amendments to Comply with Section 409A; Indemnification.** Notwithstanding any other provision of this Agreement to the contrary, the Company is authorized to amend this Agreement, to void or amend any election made by the Participant under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by the Company, in its discretion, to be necessary or appropriate to comply with the Section 409A Regulations without prior notice to or consent of the Participant. The Participant hereby releases and holds harmless the Company, its directors, officers and stockholders from any and all claims that may arise from or relate to any tax liability, penalties, interest, costs, fees or other liability incurred by the Participant in connection with the Award, including as a result of the application of Section 409A.

13.4 **Advice of Independent Tax Advisor.** The Company has not obtained a tax ruling or other confirmation from the Internal Revenue Service with regard to the application of Section 409A to the Award, and the Company does not represent or warrant that this Agreement will avoid adverse tax consequences to the Participant, including as a result of the application of Section 409A to the Award. The Participant hereby acknowledges that he or she has been advised to seek the advice of his or her own independent tax advisor prior to entering into this Agreement and is not relying upon any representations of the Company or any of its agents as to the effect of or the advisability of entering into this Agreement.

14. **<u>MISCELLANEOUS PROVISIONS</u>.**

14.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or this Agreement at any time; provided, however, that except as provided in Section 9 in connection with a Change in Control, no such termination or amendment may have a materially adverse effect on the Participant's rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation, including, but not limited to, Section 409A. No amendment or addition to this Agreement shall be effective unless in writing.

14.2 **Nontransferability of the Award.** Prior to the issuance of shares of Stock on the applicable Settlement Date, neither this Award nor any Units subject to this Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

14.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

14.4 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

14.5 **Advice of Counsel.** The Participant is hereby advised to have this Agreement, including without limitation the restrictive covenants set forth in Section 7 herein, reviewed by an attorney of the Participant's choosing. The Participant acknowledges and agrees that the Participant has had a period of at least fourteen (14) days to review and consider this Agreement before entering into it.

14.6 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address of such party set forth in the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) ***Description of Electronic Delivery.*** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, if permitted by the Company, the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) ***Consent to Electronic Delivery.*** The Participant acknowledges that the Participant has read Section 14.5(a) of this Agreement and consents to the electronic delivery of the Plan documents and, if permitted by the Company, the delivery of the Grant Notice, as described in Section 14.5(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third-party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 14.5(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 14.5(a)

(c) ***Electronic Signatures.*** The Participant agrees that the electronic signatures, whether digital or encrypted, of the parties included in the Agreement are intended to authenticate this writing and to have the same force and effect as manual signatures. Electronic signature means any electronic sound, symbol or process attached to or logically associated with a record and executed and adopted by a party with the intent to sign such record.

14.7 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with the Superseding Agreement, if any, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein or therein, the provisions of the Grant Notice, this Agreement and the Plan shall survive any settlement of the Award and shall remain in full force and effect.

14.8 **Applicable Law.** This Agreement shall be governed by the laws of the State of Illinois as such laws are applied to agreements between Illinois residents entered into and to be performed entirely within the State of Illinois.

14.9 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

PAYLOCITY HOLDING CORPORATION
NOTICE OF GRANT OF RESTRICTED STOCK UNITS
(For U.S. Participants/Contains a Non-competition covenant)

Paylocity Holding Corporation (the *"Company"*) has granted to the Participant an award (the *"Award"*) of certain units pursuant to the Paylocity Holding Corporation 2014 Equity Incentive Plan (the *"Plan"*), each of which represents the right to receive on the applicable Settlement Date one (1) share of Stock, as follows:

Participant:	**Employee ID:**
Date of Grant:	
Total Number of Units:	__, subject to adjustment as provided by the Restricted Stock Units Agreement.
Settlement Date:	Except as provided by the Restricted Stock Units Agreement, the date on which a Unit becomes a Vested Unit.
Vesting Start Date:	
Vested Units:	Except as provided in the Restricted Stock Units Agreement and provided that the Participant's Service has not terminated prior to the applicable date, the number of Vested Units (disregarding any resulting fractional Unit) as of any date is determined by multiplying the Total Number of Units by the *"Vested Ratio"* determined as of such date, as follows:
	Vested Ratio
	...……………………………………………....
Superseding Agreement:	None

By their signatures below or by electronic acceptance or authentication in a form authorized by the Company, the Company and the Participant agree that the Award is governed by this Grant Notice and by the provisions of the Restricted Stock Units Agreement and the Plan, both of which are made a part of this document, and by the Superseding Agreement, if any. The Participant acknowledges that copies of the Plan, the Restricted Stock Units Agreement and the prospectus for the Plan are posted to the participant's online account through the Company designated stock compensation administration provider and may be viewed and printed by the Participant for attachment to the Participant's copy of this Grant Notice. The Participant represents that the Participant has read and is familiar with the provisions of the Restricted Stock Units Agreement and the Plan, and hereby accepts the Award subject to all of their terms and conditions.

PAYLOCITY HOLDING CORPORATION

By: ***Steven Beauchamp***
Paylocity Corporation
Co-Chief Executive Officer

Address: 1400 American Lane
Schaumburg, IL 60173

PARTICIPANT

Signature

Date

Address

ATTACHMENTS: 2014 Equity Incentive Plan, as amended to the Date of Grant; Restricted Stock Units Agreement and Plan Prospectus

EXHIBIT 31.1

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

I, Steven R. Beauchamp, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter ended March 31, 2022 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 6, 2022

/s/ Steven R. Beauchamp

Name: **Steven R. Beauchamp**

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

EXHIBIT 31.2

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

I, Toby J. Williams, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter ended March 31, 2022 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 6, 2022

/s/ Toby J. Williams

Name: **Toby J. Williams**

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

EXHIBIT 31.3

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

I, Ryan Glenn, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter ended March 31, 2022 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: May 6, 2022		/s/ Ryan Glenn
	Name:	**Ryan Glenn**
	Title:	**Chief Financial Officer and Treasurer (Principal Financial Officer)**

Exhibit 32.1

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

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

Date: May 6, 2022		/s/ Steven R. Beauchamp
	Name:	**Steven R. Beauchamp**
	Title:	**Co-Chief Executive Officer (Principal Executive Officer) and Director**

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

Exhibit 32.2

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

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

Date: May 6, 2022		/s/ Toby J. Williams
	Name:	**Toby J. Williams**
	Title:	**President, Co-Chief Executive Officer (Principal Executive Officer) and Director**

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

Exhibit 32.3

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

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

Date: May 6, 2022		/s/ Ryan Glenn
	Name:	**Ryan Glenn**
	Title:	**Chief Financial Officer and Treasurer (Principal Financial Officer)**

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