

REFINITIV

DELTA REPORT

10-Q

PAYC - PAYCOM SOFTWARE, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1820

 **CHANGES** 204

 **DELETIONS** 1123

 **ADDITIONS** 493

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, March 31, 2023**

or

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: 001-36393

Paycom Software, Inc.

(Exact name of registrant as specified in its charter)

Delaware

80-0957485

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

7501 W. Memorial Road
Oklahoma City, Oklahoma
(Address of principal executive offices)

73142

(Zip Code)

(405) 722-6900
(Registrant's telephone number, including area code)

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

—

<u>Title of each class</u>	<u>Trading</u> Symbol(s)	<u>Name of each exchange on which</u> <u>registered</u>
Common Stock, \$0.01 par value	PAYC	New York Stock Exchange

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Emerging growth company	
Emerging growth company <input type="checkbox"/>	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of **October 24, 2023** **April 23, 2024**, there were **60,228,165** **58,110,019** shares of common stock, par value of \$0.01 per share, outstanding, including **2,527,345** **1,551,322** shares of restricted stock.

Paycom Software, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Paycom Software, Inc.
Unaudited Consolidated Balance Sheets
(in thousands, except per share amounts)

	Septe mber 30, 2023	Dece mber 31, 2022	March 31, 2024	December 31, 2023
Assets				
Current assets:				
	48	40		
	4,0	0,7		
Cash and cash equivalents	\$ 28	\$ 30	\$ 371,325	\$ 294,025
	15,	22,		
	54	84		
Accounts receivable	8	3	19,997	16,442
	40,	34,		
	56	05		
Prepaid expenses	1	6	50,809	37,613
	83	1,6		
Inventory	6	07	1,807	1,383
	10,			
	77	5,5		
Income tax receivable	0	83	—	18,391
	11	96,		
	1,8	37		
Deferred contract costs	77	8	124,397	118,206
	66	56		
	3,6	1,1		
Current assets before funds held for clients	20	97	568,335	486,060

	1,8	2,2		
	99,	02,		
	34	97		
Funds held for clients	6	5	2,727,991	2,327,366
	2,5	2,7		
	62,	64,		
	96	17		
Total current assets	6	2	3,296,326	2,813,426
	46	40		
	8,2	2,4		
Property and equipment, net	82	48	520,182	498,197
	51,	54,		
	08	01		
Intangible assets, net	8	7	49,136	50,112
	51,	51,		
	88	88		
Goodwill	9	9	51,889	51,889
	64	56		
	5,6	7,9		
Long-term deferred contract costs	11	74	712,935	680,272
	76,	62,		
	26	01		
Other assets	5	3	102,796	103,643
	3,8	3,9		
	56,	02,		
	10	51		
Total assets	\$ 1	\$ 3	\$ 4,733,264	\$ 4,197,539
Liabilities and Stockholders' Equity				
Current liabilities:				
	16,			
	6,8	05		
Accounts payable	\$ 89	\$ 4	\$ 20,969	\$ 13,875
Income tax payable			17,282	—
	20,	28,		
	42	43		
Accrued commissions and bonuses	3	9	20,091	30,492

Accrued payroll and vacation	41, 16 0 22, 73 0 77, 06	45, 02 3 19, 82 5 59, 99	42,497	56,086
Deferred revenue			27,604	22,812
Accrued expenses and other current liabilities		5 16 8,2 67 1,9 01, 64	0 16 9,3 31 2,2 07, 70	85,438 83,302
Current liabilities before client funds obligation			213,881	206,567
Client funds obligation		3 2,0 69, 91	6 2,3 77, 03	2,728,431 2,328,076
Total current liabilities			0 14 5,4	7 14 1,0
Deferred income tax liabilities, net		65	33	133,454 143,750
Long-term deferred revenue		10 5,5	97, 59	
Long-term debt		88	1	109,435 107,657
Other long-term liabilities		29, 00	29, 00	
Total long-term liabilities		0 84, 82	0 75, 24	110,000 108,453
		9 36 4,8	5 34 2,8	
		82	69	352,889 359,860

	2,4	2,7		
	34,	19,		
	79	90		
Total liabilities	2	6	3,295,201	2,894,503
Commitments and contingencies				
Commitments and contingencies (Note 12)				
Stockholders' equity:				
Common stock, \$0.01 par value (100,000 shares authorized, 62,655 and 62,518 shares issued at September 30, 2023 and December 31, 2022, respectively; 57,700 and 57,867 shares outstanding at September 30, 2023 and December 31, 2022, respectively)	62	62		
	7	5		
Common stock, \$0.01 par value (100,000 shares authorized, 62,719 and 62,675 shares issued at March 31, 2024 and December 31, 2023, respectively; 56,557 and 56,528 shares outstanding at March 31, 2024 and December 31, 2023, respectively)			627	627
	68	57		
	7,7	6,6		
Additional paid-in capital	23	22	634,818	724,493
	1,4	1,1		
	10,	96,		
	65	96		
Retained earnings	9	8	1,697,191	1,469,981
	(2,	(3,		
	18	70		
Accumulated other comprehensive earnings (loss)	1)	3)	(495)	(1,039)
	(67	(58		
Treasury stock, at cost (4,955 and 4,651 shares at September 30, 2023 and December 31, 2022, respectively)	5,5	7,9		
	19)	05)		
Treasury stock, at cost (6,162 and 6,147 shares at March 31, 2024 and December 31, 2023, respectively)			(894,078)	(891,026)
	1,4	1,1		
	21,	82,		
	30	60		
Total stockholders' equity	9	7	1,438,063	1,303,036

	3,8	3,9		
	56,	02,		
	10	51		
Total liabilities and stockholders' equity	\$ 1	\$ 3	\$ 4,733,264	\$ 4,197,539
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to the unaudited consolidated financial statements.

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Paycom Software, Inc.
Unaudited Consolidated Statements of Comprehensive Income
(in thousands, except per share amounts)

	Three Months		Nine Months		Three Months Ended March 31,	
	Ended September		Ended			
	30,		September 30,			
	2023	2022	2023	2022	2024	2023
Revenues						
Recurring	39	32	1,2			
	8,	8,	37,	987		
	76	15	70	,84		
Recurring	\$ 3	\$ 0	\$ 6	\$ 8	\$ 491,896	\$ 444,421
Implementation and other	7,	6,	21,			
	54	01	37	16,		
	0	7	3	762	7,985	7,216
	40	33	1,2			
	6,	4,	59,	1,0		
	30	16	07	04,		
Total revenues	3	7	9	610	499,881	451,637
Cost of revenues						

	55	44	16	122		
	,6	,1	3,3	,26		
Operating expenses	00	69	02	5	63,670	53,085
	13	10	38,			
Depreciation and amortization	,3	,9	29	31,		
	41	35	9	405	14,961	12,147
	68	55	20	153		
Total cost of revenues	,9	,1	1,6	,67		
	41	04	01	0	78,631	65,232
Administrative expenses						
	10					
	1,	91	31	253		
Sales and marketing	16	,1	1,1	,83		
	2	14	71	4	115,524	103,574
	51	40	14	108		
Research and development	,8	,3	3,6	,77		
	64	66	51	4	50,509	42,669
	71	60	21	179		
General and administrative	,8	,6	3,3	,10		
	27	93	97	9	(48,104)	65,605
	15	12	44,			
Depreciation and amortization	,6	,6	66	36,		
	08	25	0	378	17,507	14,125
	24	20				
Total administrative expenses	0,	4,	71	578		
	46	79	2,8	,09		
	1	8	79	5	135,436	225,973
	30	25				
	9,	9,	91	731		
Total operating expenses	40	90	4,4	,76		
	2	2	80	5	214,067	291,205
	96	74	34	272		
	,9	,2	4,5	,84		
Operating income	01	65	99	5	285,814	160,432

	(1, 2)	(1, 01)	66	(1,5 87)		
Interest expense	22)	8)	1)	87)	(782)	(837)
	5, 36	2, 04	17, 54	4,3		
Other income (expense), net	2	1	9	31	5,009	6,004
	10					
	2, 04	75	36	275		
Income before income taxes	1	,2	0,4	,58		
	1	88	87	9	290,041	165,599
	26	23	10			
Provision for income taxes	,8	,1	1,4	74,		
	22	35	56	151	42,854	46,303
	75	52	25	201		
	,2	,1	9,0	,43		
Net income	\$ 19	\$ 53	\$ 31	\$ 8	\$ 247,187	\$ 119,296
Earnings per share, basic	1.	0.	4.4	3.4		
	\$ 30	\$ 90	\$ 8	\$ 8	\$ 4.37	\$ 2.06
Earnings per share, diluted	1.	0.	4.4	3.4		
	\$ 30	\$ 90	\$ 6	\$ 6	\$ 4.37	\$ 2.06
Weighted average shares outstanding:						
	57	57	57,			
	,8	,8	87	57,		
Basic	25	65	1	949	56,546	57,867
	57	58	58,			
	,9	,0	05	58,		
Diluted	66	33	6	193	56,552	57,991
Comprehensive earnings (loss):						
Comprehensive earnings:						
	75	52	25	201		
	,2	,1	9,0	,43		
Net income	\$ 19	\$ 53	\$ 31	\$ 8	\$ 247,187	\$ 119,296

Unrealized net gains (losses) on available-for-sale securities	1,23	(2,70)	2,05	(4,81)		
Unrealized net gains on available-for-sale securities					837	1,050
	(420)	492	(525)	1,068		
Tax effect					(293)	(200)
Other comprehensive income (loss), net of tax	812	213)	1,522	(3,813)		
	76	49	26	197		
Comprehensive earnings (loss)	,031	,940	\$ 0,553	\$,625		
Other comprehensive income, net of tax					544	850
Comprehensive earnings					\$ 247,731	\$ 120,146

See accompanying notes to the unaudited consolidated financial statements.

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Paycom Software, Inc.
Unaudited Consolidated Statements of Stockholders' Equity
(in thousands)

	Common Stock	Retained Earnings			Treasury Stock	Total
		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Less Treasury Stock		

	Shares	Amount	Paid-in Capital	Earnings s	Comprehen sive Loss	Shares	Amount	Stockholders' Equity
				915,57			(488,08	
Balances at December 31, 2021	62,298	\$ 623	\$ 465,594	\$ 9	\$ -	4,286	\$ 2)	\$ 893,714
Vesting of restricted stock	4							
Stock-based compensation			24,713					24,713
Repurchases of common stock						1	(218)	(218)
Net income				91,930				91,930
Other comprehensive earnings								
(loss), net of tax					(1,119)			(1,119)
				1,007			(488,30	
Balances at March 31, 2022	62,302	\$ 623	\$ 490,307	\$ 509	\$ (1,119)	4,287	\$ 0)	\$ 1,009,020
Vesting of restricted stock	212	2	(2)					
Stock-based compensation			27,472					27,472
Repurchases of common stock						363	(99,227)	(99,227)
Net income				57,355				57,355
Other comprehensive earnings								
(loss), net of tax					(481)			(481)
				1,064			(587,52	
Balances at June 30, 2022	62,514	\$ 625	\$ 517,777	\$ 864	\$ (1,600)	4,650	\$ 7)	\$ 994,139
Vesting of restricted stock	3							
Stock-based compensation			32,525					32,525
Repurchases of common stock							(224)	(224)
Net income				52,153				52,153
Other comprehensive earnings								
(loss), net of tax					(2,213)			(2,213)
Balances at September 30, 2022	62,517	\$ 625	\$ 550,302	\$ 017	\$ (3,813)	4,650	\$ 1)	\$ 1,076,380
						Retaine	Accumulate	
						Common Stock	Additional Capital	Total
						Shares	Amount	Stockholders' Equity
Balances at December 31, 2022	62,518	\$ 625	\$ 576,622	\$ 968	\$ (3,703)	4,651	\$ 5)	\$ 1,182,607
				1,196,			(587,90	

Vesting of restricted stock	7	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	32,344	—	—	—	—	—	32,344
Repurchases of common stock	—	—	—	—	—	—	2	(626)	(626)
Net income	—	—	—	119,296	—	—	—	—	119,296
Other comprehensive earnings (loss), net of tax	—	—	—	—	850	—	—	—	850
Balances at March 31, 2023								(588,53)	
	62,525	\$ 625	\$ 608,966	\$ 1,316,264	\$ (2,853)	4,653	\$ 1	\$ 1,334,471	
	62,525	\$ 625	\$ 608,966	\$ 1,316,264	\$ (2,853)	4,653	\$ 1	\$ 1,334,471	

	Accumulated							
	Common Stock		Additional		Retained		Other	
	Shares	Amount	Paid-in Capital	Earnings	Comprehensi ve Loss	Shares	Treasury Stock	Total Stockholder's Equity
Balances at December 31, 2023								
	62,675	\$ 627	\$ 724,493	\$ 1,469,981	\$ (1,039)	6,147	\$ 6	\$ 1,303,036
Vesting of restricted stock	44	—	—	—	—	—	—	—
Stock-based compensation	—	—	(89,675)	—	—	—	—	(89,675)
Dividends declared (\$0.375 per share)	—	—	—	(19,977)	—	—	—	(19,977)
Repurchases of common stock	—	—	—	—	—	15	(3,052)	(3,052)
Net income	—	—	—	247,187	—	—	—	247,187
Other comprehensive earnings (loss), net of tax	—	—	—	—	544	—	—	544
Balances at March 31, 2024								
	62,719	\$ 627	\$ 634,818	\$ 1,697,191	\$ (495)	6,162	\$ 8	\$ 1,438,063
	62,719	\$ 627	\$ 634,818	\$ 1,697,191	\$ (495)	6,162	\$ 8	\$ 1,438,063

See accompanying notes to the unaudited consolidated financial statements.

Paycom Software, Inc.
Unaudited Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
Cash flows from operating activities				
Net income	\$ 259,031	\$ 201,438	\$ 247,187	\$ 119,296
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	82,959	67,783	32,468	26,272
Accretion of discount on available-for-sale securities	(387)	(872)	(73)	(124)
Non-cash marketing expense	1,263	1,320	398	418
Gain on disposition of property and equipment	(33)	—		
Loss (Gain) on disposition of property and equipment			10	(13)
Amortization of debt issuance costs	946	532	276	308
Stock-based compensation expense	96,383	70,815	(93,790)	27,819
Loss on extinguishment of debt	1,222	—		
Cash paid for derivative settlement	—	205		
Gain on derivative	—	(1,559)		
Deferred income taxes, net	3,889	(4,841)	(10,489)	(1,650)
Other	18	(227)	(100)	78
Changes in operating assets and liabilities:				
Accounts receivable	7,295	(5,406)	(3,555)	5,041
Prepaid expenses	(8,845)	(11,203)	(13,888)	(6,984)
Inventory	375	27	182	385
Other assets	(15,773)	(10,104)	572	2,923
Deferred contract costs	(87,604)	(86,634)	(37,640)	(38,519)
Accounts payable	(8,131)	4,159	2,980	(4,645)
Income taxes, net	(5,187)	1,245	35,673	24,933

Accrued commissions and bonuses	(8,016)	(3,320)	(10,401)	(10,845)
Accrued payroll and vacation	(3,863)	1,810	(13,636)	(8,835)
Deferred revenue	10,902	12,585	6,570	3,386
Accrued expenses and other current liabilities	24,125	(1,106)	5,892	6,859
Net cash provided by operating activities	350,569	236,647	148,636	146,103
Cash flows from investing activities				
		(268,71		
Purchases of investments from funds held for clients	(25,000)	8)	—	(25,000)
Proceeds from investments from funds held for clients	25,000	328,731	90,000	25,000
	(135,70			
Purchases of property and equipment	9)	(92,041)	(47,728)	(40,618)
Proceeds from sale of property and equipment	67	—	13	—
	(135,64			
Net cash used in investing activities	2)	(32,028)		
Net cash provided by (used in) investing activities			42,285	(40,618)
Cash flows from financing activities				
Proceeds from the issuance of debt	—	29,000		
Repurchases of common stock	(74,994)	(94,652)		
Withholding taxes paid related to net share settlements	(12,620)	(5,017)	(3,052)	(626)
Payments on long-term debt	—	(29,287)		
Dividends paid	(43,367)	—	(21,209)	—
	(306,06			
Net change in client funds obligation	3)	(92,478)	400,355	183,629
Payment of debt issuance costs	(649)	(6,437)		
	(437,69	(198,87		
Net cash used in financing activities	3)	1)		
(Decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(222,76			
	6)	5,748		
Net cash provided by financing activities			376,094	183,003
Increase in cash, cash equivalents, restricted cash and restricted cash equivalents			567,015	288,488
Cash, cash equivalents, restricted cash and restricted cash equivalents				

Cash, cash equivalents, restricted cash and restricted cash equivalents, beginning of period	2,409,0 95	1,812,6 91	2,422,760	2,409,095
Cash, cash equivalents, restricted cash and restricted cash equivalents, end of period	2,186,3 \$ 29	1,818,4 \$ 39	\$ 2,989,775	\$ 2,697,583
Nine Months Ended				
September 30,				
	2023	2022		
Reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents				
Cash and cash equivalents	\$ 484,028	\$ 317,163		
	1,702,3	1,501,2		
Restricted cash included in funds held for clients	01	76		
Total cash, cash equivalents, restricted cash and restricted cash equivalents, end of period	2,186,3 \$ 29	1,818,4 \$ 39		
Supplemental disclosures of cash flow information:				
Non-cash investing and financing activities:				
Purchases of property and equipment, accrued but not paid	\$ 8,011	\$ 3,355		
Stock-based compensation for capitalized software	\$ 11,529	\$ 6,545		
Right of use assets obtained in exchange for operating lease liabilities	\$ 21,023	\$ 14,385		

See accompanying notes to the unaudited consolidated financial statements.

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Paycom Software, Inc.
Unaudited Consolidated Statements of Cash Flows, continued
(in thousands)

Three Months Ended March 31,

	2024	2023
Reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents		
Cash and cash equivalents	\$ 371,325	\$ 505,590
Restricted cash included in funds held for clients	2,618,450	2,191,993
Total cash, cash equivalents, restricted cash and restricted cash equivalents, end of period	<u>\$ 2,989,775</u>	<u>\$ 2,697,583</u>
Supplemental disclosures of cash flow information:		
Non-cash investing and financing activities:		
Purchases of property and equipment, accrued but not paid	\$ 9,070	\$ 6,991
Stock-based compensation for capitalized software	\$ 3,589	\$ 3,597
Right of use assets obtained in exchange for operating lease liabilities	\$ 5,080	\$ 1,933

See accompanying notes to the unaudited consolidated financial statements.

Paycom Software, Inc.

Notes to the Unaudited Consolidated Financial Statements

(tabular dollars and shares in thousands, except per share and per unit amounts)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Paycom Software, Inc. ("Software") and, together with its wholly-owned wholly owned subsidiaries (collectively, the "Company"), is a leading provider of a comprehensive, cloud-based human capital management ("HCM") solution delivered as Software-as-a-Service. Unless we state otherwise or the context otherwise requires, the terms "we," "our," "us" and the "Company" refer to Software and its consolidated subsidiaries.

We provide functionality and data analytics that businesses need to manage the complete employment lifecycle, from recruitment to retirement. Our solution requires virtually no customization and is based on a core system of record maintained in a single database for all HCM functions, including payroll, talent acquisition, time and labor management, payroll, talent management, and human resources ("HR") management and time and labor management applications.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are discussed in "Note 2. Summary of Significant Accounting Policies" in the notes to our audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023** (the "Form 10-K") filed with the Securities and Exchange Commission ("SEC") on **February 16, 2023** **February 15, 2024**.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements **include the financial results of Software and notes its wholly owned subsidiaries** and have been prepared in accordance with **accounting principles generally accepted accounting principles** in the United States of America ("U.S. GAAP") and applicable rules and regulations of the SEC regarding interim financial statements that permit reduced disclosure for interim periods. **Intercompany balances and transactions have been eliminated in consolidation.** In the opinion of management, the **accompanying unaudited consolidated financial statements reflect** **include** all adjustments **of a normal recurring nature that are necessary for a** **the** fair presentation of the **Company's** results for the interim periods presented. These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes presented in the Form 10-K. The results of operations for the three **and nine** months ended **September 30, 2023** **March 31, 2024** are not necessarily indicative of the results expected for the full year.

Recently Adopted Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-04, "Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"). ASU 2020-04 provides temporary optional expedites and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. Prior to August 24, 2022, our floating-to-fixed interest rate swap was outstanding to offset the rate variability associated with our outstanding indebtedness. As discussed in Note 7, the interest rate swap was terminated on August 24, 2022. As a result, the adoption of ASU 2020-04 had no material impact on our unaudited interim consolidated financial statements.

In January 2021, the FASB issued ASU No. 2021-01, "Reference Rate Reform (Topic 848) Scope" ("ASU 2021-01"), which clarifies that certain optional expedites and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivative instruments that are affected by the discounting transition. ASU 2021-01 amends the expedites and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. As discussed in Note 7, the interest rate swap was terminated on August 24, 2022. As a result, the adoption of ASU 2021-01 had no material impact on our unaudited interim consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include income taxes, loss contingencies, the useful life of property and equipment and intangible assets, the life of our client relationships, the fair value of our stock-based awards and the fair value of our financial instruments, intangible assets and goodwill. These estimates are based on historical experience, where applicable, and

other assumptions that management believes are reasonable under the circumstances. Actual results could materially differ from these estimates.

Seasonality

Our revenues are seasonal in nature and generally nature. Generally, we expect our first and fourth quarter recurring revenues to be higher than other quarters during the year. Recurring revenues include revenues relating to the annual processing of year because payroll tax filing forms and Affordable Care Act form filing requirements forms are typically processed in the first quarter and revenues from processing unscheduled payroll runs (such as bonuses) for our clients. As payroll tax forms clients are typically processed concentrated in the first quarter of the year, first quarter recurring revenues and margins are positively impacted. fourth quarter. In addition, unscheduled payroll runs at the end of the year often result in increased recurring revenues in the

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fourth quarter. These these seasonal fluctuations in recurring revenues can also have an impact on gross profits. Historical results impacted by these seasonal trends should not be considered a reliable indicator of our future results of operations. operating income.

Funds Held for Clients and Client Funds Obligation

As part of our payroll and tax filing application, services, we (i) collect client funds to satisfy their respective federal, state and local employment tax obligations, (ii) remit such funds to the appropriate taxing authorities and accounts designated by our clients, and (iii) manage client tax filings and any related correspondence with taxing authorities. Amounts collected by us from clients for their federal, state and local employment taxes are invested by us, and we earn interest on these funds during the interval between receipt and disbursement.

These investments are shown in our consolidated balance sheets as funds held for clients, and the associated liability for the tax filings is shown as client funds obligation. The liability is recorded in the accompanying consolidated balance sheets at the time we obtain the funds from clients. The client funds obligation represents liabilities that will be repaid within one year of the consolidated balance sheet date. As of September 30, 2023 and December 31, 2022, the We typically invest funds held for clients were invested in money market funds, demand deposit accounts, and certificates of deposit. Additionally, the funds held for clients were invested in deposit, commercial paper and U.S. treasury securities securities. Short-term investments in instruments with an original maturity of greater less than one year. Historically, we have also invested three months are classified as cash and cash equivalents within funds held for clients in commercial paper. Short-term investments the consolidated balance sheets. Investments in instruments with an original maturity greater than three months including certificates of deposit, commercial paper and U.S. treasury securities, are classified as available-for-sale securities and are also included within the funds held for clients line item in the consolidated balance sheets.

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These available-for-sale securities are recorded in the consolidated balance sheets at fair value, with the difference between the amortized cost and fair value of these available-for-sale securities recorded as unrealized net gains (losses) on available-for-sale securities, and are included within comprehensive earnings (loss) in the consolidated statements of comprehensive income. Funds held for clients are classified as a current asset in the consolidated balance sheets because the funds are held solely to satisfy the client funds obligation. Additionally, the funds held for clients is classified as restricted cash and restricted cash equivalents and presented within the reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents on the consolidated statements of cash flows.

The Company reports the cash flows related to the purchases of investments from funds held for clients and related to the proceeds from the maturities of investments from funds held for clients on a gross basis in the cash flows from investing activities section of the consolidated statements of cash flows. Additionally, the Company reports cash flows related to cash received from and paid on behalf of clients on a net basis within the net change in client funds obligation in the cash flows from financing activities section of the consolidated statements of cash flows.

Stock Repurchase Plan

In May 2016, our Board of Directors authorized a stock repurchase plan allowing for the repurchase of shares of our common stock in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b5-1 programs. Since the initial authorization of the stock repurchase plan, our Board of Directors has amended and extended and authorized new stock repurchase plans from time to time. Most recently, in August 2022, our Board of Directors authorized the repurchase of up to \$1.1 billion of our common stock. As of **September 30, 2023** **March 31, 2024**, there was **\$1.0796.0** billion available for repurchases under our stock repurchase plan. Our stock repurchase plan may be suspended or discontinued at any time. The actual timing, number and value of shares repurchased depends on a number of factors, including the market price of our common stock, general market and economic conditions, shares withheld for taxes associated with the vesting of restricted stock equity incentive awards and other corporate considerations. The current stock repurchase plan will expire on August 15, 2024.

During the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, we repurchased an aggregate of **303,401** **15,681** shares of our common stock at an average cost of **\$288.77** **194.62** per share, including **43,891** all of which were shares withheld to satisfy tax withholding obligations for certain employees upon the vesting of equity incentive awards.

Recently Issued Accounting Pronouncements

In November 2023, the Financial Accounting pronouncements Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"). ASU 2023-07 requires incremental disclosures in annual and interim periods related to reportable segments, and segment expenses but does not change the definition of a segment, the method for determining segments, or the criteria for aggregating operating segments into reportable segments. This ASU is effective until for fiscal years beginning after September 30, 2023 December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. We are not expected to have a significant impact assessing the impact of this ASU on our consolidated financial position or results statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU 2023-09 requires disaggregated information about a reporting entity's effective tax rate reconciliation, as well as information on income taxes paid. This ASU is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. We are assessing the impact of operations this ASU on our consolidated financial statements and disclosures.

3. REVENUE

Revenues are recognized when control of the promised goods or services is transferred to our clients in an amount that reflects the consideration we expect to be entitled to for those goods or services. Substantially all of our revenues are comprised of revenue from contracts with clients. Sales taxes and other applicable taxes are excluded from revenues.

Recurring Revenues

Recurring revenues are derived primarily from our payroll, talent acquisition, time and labor management, payroll, talent management, HR management and Global HCM™ time and labor management applications as well as fees charged for form filings and delivery of client payroll checks and reports. Payroll includes Beti®, Payroll and Tax Management, Vault, Everyday™, Paycom Pay®, Client Action Center™, Expense Management, Mileage Tracker/FAVR, Garnishment Administration and GL Concierge applications. Talent acquisition includes our Applicant Tracking, Candidate Tracker, Enhanced Background Checks®, Onboarding, E-Verify® and Tax Credit Services applications. Time and labor management includes Time and Attendance, Scheduling/Schedule exchange, Time-Off Requests, Labor Allocation, Labor Management Reports/Push Reporting®, Geofencing/Geotracking and

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Microfence® tools and applications. Payroll includes Beti®, Payroll and Tax Management, Vault, Everyday™, Paycom Pay®, Expense Management, Mileage Tracker/FAVR, Garnishment Administration and GL Concierge Credits applications. Talent management includes our Employee Self-Service®, Compensation Budgeting, Performance Management, Position

Management, My Analytics and Paycom Learning and Content Subscriptions applications. HR management includes our Manager on-the-Go®, Direct Data Exchange®, Ask Here, Documents and Checklists, Government and Compliance, Benefits Administration/Benefits to Carrier, Benefit Enrollment Service, COBRA Administration, Personnel Action Forms and Performance Discussion Forms, Surveys, Client Action Center, Enhanced ACA and Clue®

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applications. With Time and labor management includes Time and Attendance, Scheduling, Time-Off Requests with GONE®, Labor Allocation, Labor Management Reports/Push Reporting®, Geofencing/Geotracking and Microfence® tools and applications. In addition, with Global HCM, HCM™, a number of our HCM applications and tools are available in 15 languages and dialects and are accessible to users in more than 180 countries.

The performance obligations related to recurring revenues are generally satisfied during each client's payroll period, with the agreed-upon fee being charged and collected as part of our processing of the client's payroll. Recurring revenues are recognized at the conclusion of processing of each client's payroll period, when each respective payroll client is billed. Collectability is reasonably assured as the fees are generally collected through an automated clearing house as part of the client's payroll cycle or through direct wire transfer, which minimizes the default risk.

The contract period for substantially all contracts associated with these revenues is one month due to the fact that both we and the client typically have the unilateral right to terminate a wholly unperformed contract without compensating the other party by providing 30 days' notice of termination. Our payroll application is the foundation of our solution, and all of our clients are required to utilize this application in order to access our other applications. For clients who purchase multiple applications, due to the short-term nature of our contracts, we do not believe it is meaningful to separately assess and identify whether or not each application potentially represents its own, individual, performance obligation as the revenue generated from each application is recognized within the same month as the revenue from the core payroll application. Similarly, we do not believe it is meaningful to individually determine the standalone selling price for each application. We consider the total price charged to a client in a given period to be indicative of the standalone selling price, as the total amount charged is within a reasonable range of prices typically charged for our goods and services for comparable classes of client groups, which we periodically assess for price adjustments.

Interest income on funds held for clients is earned on funds that are collected from clients in advance of either the applicable due date for payroll tax submissions or the applicable disbursement date for employee payment services. The

interest earned on these funds is included in recurring revenues in the consolidated statements of comprehensive income as the collection, holding, and remittance of these funds are essential components of providing these services.

Implementation and Other Revenues

Implementation and other revenues consist of nonrefundable upfront conversion fees, which are charged to new clients to offset the expense of new client set-up as well as revenues from the sale of time clocks as part of our Time and Attendance application. Although these revenues are related to our recurring revenues, they represent distinct performance obligations.

Implementation activities primarily represent administrative activities that allow us to fulfill future performance obligations for our clients and do not represent services transferred to the client. However, the nonrefundable upfront fee charged to our clients results in an implied performance obligation in the form of a material right to the client related to the client's option to renew at the end of each 30-day contract period. Further, given that all other services within the contract are sold at a total price indicative of the standalone selling price, coupled with the fact that the upfront fees are consistent with upfront fees charged in similar contracts that we have with clients, the standalone selling price of the client's option to renew the contract approximates the dollar amount of the nonrefundable upfront fee. The nonrefundable upfront fee is typically included on the client's first invoice collected upon contract inception and is deferred and recognized ratably over the estimated renewal period (i.e., ten-year 10-year estimated client life).

Revenues from the sale of time clocks are recognized when control is transferred to the client upon delivery of the product. We estimate the standalone selling price for the time clocks by maximizing the use of observable inputs such as our specific pricing practices for time clocks.

Contract Balances

The timing of revenue recognition for recurring services is consistent with the invoicing of clients as they both occur during the respective client payroll period for which the services are provided. Therefore, we do not recognize a contract asset or liability resulting from the timing of revenue recognition and invoicing.

Changes in deferred revenue related to material rights for the three months ended March 31, 2024 and 2023 were as follows:

	Three Months Ended March 31,	
	2024	2023
Balance, beginning of period	\$ 130,469	\$ 117,416
Recognition of revenue included in beginning of period balance	(5,723)	(5,086)
Contract balance, net of revenue recognized during the period	12,293	8,472
Balance, end of period	\$ 137,039	\$ 120,802

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Changes in deferred revenue related to material rights for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 124,233	\$ 108,880	\$ 117,416	\$ 101,426
Recognition of revenue included in beginning of period balance	(5,592)	(4,705)	(16,185)	(13,548)
Contract balance, net of revenue recognized during the period	9,677	9,836	27,087	26,133
Balance, end of period	<u>\$ 128,318</u>	<u>\$ 114,011</u>	<u>\$ 128,318</u>	<u>\$ 114,011</u>

We expect to recognize \$6.2 22.1 million of deferred revenue related to material right performance obligations rights in the remainder of 2023 2024, \$21.8 22.1 million of such deferred revenue in 2024 2025, and \$100.3 92.8 million of such deferred revenue thereafter.

Assets Recognized from the Costs to Obtain and Costs to Fulfill Revenue Contracts

We recognize an asset for the incremental costs of obtaining a contract with a client if we expect the amortization period to be longer than one year. We also recognize an asset for the costs to fulfill a contract with a client if such costs are specifically identifiable, generate or enhance resources used to satisfy future performance obligations, and are expected to be recovered. We have determined that substantially all costs related to implementation activities are administrative in nature and also meet the capitalization criteria under ASC 340-40. These capitalized costs to fulfill principally relate to upfront direct costs that are expected to be recovered through margin and that enhance our ability to satisfy future performance obligations.

The assets related to both costs to obtain, and costs to fulfill, contracts with clients are accounted for utilizing a portfolio approach and are capitalized and amortized ratably over the expected period of benefit, which we have determined to be the estimated life of the client relationship of ten 10 years. The expected period of benefit has been determined to be the estimated life of the client relationship primarily because we incur no new costs to obtain, or costs to fulfill, a contract upon renewal of such contract. Additional commission costs may be incurred when an existing client purchases additional applications; however, these commission costs relate solely to the additional applications purchased

and are not related to contract renewal. Furthermore, additional fulfillment costs associated with existing clients purchasing additional applications are minimized by our seamless single-database platform. These assets are presented as deferred contract costs in the accompanying consolidated balance sheets. Amortization expense related to costs to obtain and costs to fulfill a contract are included in the "sales" and "marketing" marketing expenses and "general" general and "administrative" line items administrative expenses in the accompanying consolidated statements of comprehensive income.

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

	As of and for the Three Months				As of and for the Three Months Ended March 31, 2024			
	Ended September 30, 2023				Beginning		Capitalization	
	Begin ning	Capital ization	Endin g		Beginning		Capitalization	Ending
	Balan ce	of Costs	Amorti zation	Balan ce	Balance		of Costs	Amortization
Costs to obtain a contract	350,48	21,4	(13,03	358	\$ 378,467	\$ 33,843	\$ (15,380)	\$ 396,930
Costs to fulfill a contract	380,32	32,6	(13,45	399	\$ 420,011	\$ 35,557	\$ (15,166)	\$ 440,402
As of and for the Three Months								
Ended September 30, 2022				As of and for the Three Months Ended March 31, 2023				
	Begin ning	Capital ization	Endin g		Beginning		Capitalization	Ending
	Balan ce	of Costs	Amorti zation	Balan ce	Balance		of Costs	Amortization
	295,98	21,6	(11,11	306	\$ 325,457	\$ 31,497	\$ (12,963)	\$ 343,991
	\$ 6	\$ 63	\$ 530)	\$ 9				

Costs to fulfill a contract	302,01	30,1	(10,65)	\$ 95	\$ 559)	\$ 5	\$ 338,895	\$ 33,649	\$ (11,956)	\$ 360,588
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As of and for the Nine Months

Ended September 30, 2023

	Begin ning	Capital ization		Endin g
	Balan ce	of Costs	Amorti zation	Balan ce
Costs to obtain a contract	325,45	72,8	(40,03)	
Costs to fulfill a contract	338,89	98,8	(38,45)	
	\$ 7	\$ 85	\$ 306)	\$ 6
	\$ 5	\$ 42	\$ 285)	\$ 2

As of and for the Nine Months

Ended September 30, 2022

	Begin ning	Capital ization		Endin g
	Balan ce	of Costs	Amorti zation	Balan ce
Costs to obtain a contract	272,91	66,5	(33,11)	
Costs to fulfill a contract	265,65	85,6	(29,65)	
	\$ 9	\$ 44	\$ 344)	\$ 9
	\$ 7	\$ 44	\$ 646)	\$ 5

4. PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation and amortization were as follows:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
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Property and equipment						
Software and capitalized software						
development costs	\$ 343,841	\$ 270,645	\$ 401,431	\$ 371,665		
Buildings	179,367	177,765	179,933	179,874		
Computer equipment	152,676	133,715	172,081	164,856		
Rental clocks	40,760	35,846	43,755	42,364		
Furniture, fixtures and equipment	31,265	28,414	32,657	32,413		
Other	18,306	17,321	18,508	18,500		
	766,215	663,706	848,365	809,672		
Less: accumulated depreciation and amortization	(408,947)	(331,340)	(468,352)	(437,291)		
	357,268	332,366	380,013	372,381		
Construction in progress	77,218	36,286	106,373	92,020		
Land	33,796	33,796	33,796	33,796		
Property and equipment, net	\$ 468,282	\$ 402,448	\$ 520,182	\$ 498,197		

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We capitalize computer software development costs related to software developed or obtained for internal use in accordance with ASC 350-40. For the three and nine months ended September 30, 2023, March 31, 2024 and 2023, we capitalized \$26.6 29.8 million and \$70.8 21.4 million, respectively, of computer software development costs related to software developed for internal use. For the three and nine months ended September 30, 2022, we capitalized \$17.0 million and \$48.8 million, respectively, of computer software development costs related to software developed or obtained for internal use.

Rental clocks included in property and equipment, net in the consolidated balance sheets, represent time clocks issued to clients under month-to-month operating leases. As such, these items are transferred from inventory to property and equipment and depreciated over their estimated useful lives.

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We capitalized repayment of our debt on November 21, 2023, we capitalized interest costs incurred for indebtedness related to construction in progress. For the three and nine months ended September 30, 2023, March 31, 2024 and 2023, we incurred interest costs of \$1.3 0.8 million and \$4.2 1.4 million, respectively, of which we capitalized \$1.2 million and \$2.6 million, respectively. For the three and nine months ended September 30, 2022, we incurred interest costs of \$1.2 million and \$2.1 million, respectively, of which we capitalized \$0.2 0.0 million and \$0.5 million, respectively. Included in the construction in progress balance at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 is \$3.7 2.0 million and \$2.0 4.2 million in retainage, respectively.

Depreciation and amortization expense for property and equipment was \$27.9 31.5 million and \$80.0 25.3 million for the three and nine months ended September 30, 2023, respectively. Depreciation March 31, 2024 and amortization expense for property and equipment was \$22.5 million and \$64.7 million for the three and nine months ended September 30, 2022, 2023, respectively.

5. GOODWILL AND INTANGIBLE ASSETS, NET

As of both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, goodwill was \$51.9 million. We have selected June 30 as our annual goodwill impairment testing date. We performed a qualitative impairment test of our goodwill and concluded that, as of June 30, 2023, it was more likely than not that the fair value exceeded the carrying value and therefore goodwill was not impaired. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, there were no indicators of impairment.

In connection with our marketing initiatives, we purchased the naming rights to the downtown Oklahoma City arena that is home to the Oklahoma City Thunder National Basketball Association franchise. Under the terms of the naming rights agreement, we committed to make payments escalating annually from \$4.0 million in 2021 to \$6.1 million in 2035. We also made a \$1.5 million one-time payment in July 2021 to cover sponsorship rights leading up to the 2021-2022 season. Upon the conclusion of the initial term, the agreement may be extended upon the mutual agreement of both parties for an additional five-year period. The cost of the naming rights has been recorded as an intangible asset with an offsetting liability as of the date of the contract. The intangible asset is being amortized over the life of the agreement on a straight line basis that commenced in June 2021. The difference between the present value of the offsetting liability and actual cash payments is being relieved through sales and marketing expense using the effective interest method over the life of the agreement.

All of our intangible assets other than goodwill are considered to have definite lives and, as such, are subject to amortization. The following tables present the components of intangible assets within our consolidated balance sheets:

September 30, 2023		March 31, 2024	
Weighted	Accu		
Average	mulat		
Remaining	ed	Weighted Average Remaining	Accumulated

Intangibles:	Gross Amort				Useful Life (Years)	Gross	Amortization	Net
	Useful Life	Gross	Amortization	Net				
	(Years)							
Names:	13.1	60	51		12.6			
,1		(9,1)	,0					
\$ 99		\$ 11)	\$ 88			\$ 60,199	\$ (11,063)	\$ 49,136
		60	51					
To	,1	(9,1)	,0					
tal	\$ 99	\$ 11)	\$ 88			\$ 60,199	\$ (11,063)	\$ 49,136

Intangibles:	December 31, 2022				December 31, 2023			
	Weighted Average	Accu mulate	Remaining	Weighted Average Remaining	Accumulated			
	Useful Life	Gross	Amort	Useful Life	Gross	Amortization	Net	
Names:	13.8	60	54	12.8				
,1		(6,1)	,0					
\$ 99		\$ 82)	\$ 17		\$ 60,199	\$ (10,087)	\$ 50,112	
		60	54					
To	,1	(6,1)	,0					
tal	\$ 99	\$ 82)	\$ 17		\$ 60,199	\$ (10,087)	\$ 50,112	

Amortization of intangible assets for the three and nine months ended September 30, 2023 March 31, 2024 and 2023 was \$0.9 million and \$2.9 million, respectively. Amortization of intangible assets for the three and nine months ended September 30, 2022 was \$0.9 million and \$3.0 million, respectively. We estimate the aggregate amortization expense will be \$1.0 million for the remainder of 2023 and \$3.9 million for each of 2024, 2025, 2026, 2027, 2028 and 2029.

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6. LONG-TERM DEBT

Long-term debt consisted of the following:

	September 30, 2023	December 31, 2022
July 2022 Revolving Credit Facility due July 29, 2027	\$ 29,000	\$ 29,000
Total long-term debt	<u>\$ 29,000</u>	<u>\$ 29,000</u>

On December 7, 2017, we entered into a senior secured term credit agreement (as amended from time to time, the "2017 Term Credit Agreement"), pursuant to which JPMorgan Chase Bank, N.A., Bank of America, N.A. and Kirkpatrick Bank made certain term loans to us (the "2017 Term Loans"). Our obligations under the 2017 Term Loans were secured by a mortgage and first priority security interest in our corporate headquarters property. The 2017 Term Loans were due to mature on September 7, 2025 and bore interest, at our option, at either (a) a prime rate plus 1.0% or (b) an adjusted LIBOR rate for the interest period in effect for such 2017 Term Loan plus 1.5%.

As discussed below, the 2017 Term Loans were repaid in full on May 4, July 29, 2022 and the 2017 Term Credit Agreement was terminated. At the time of payoff, unamortized debt issuance costs totaling \$0.1 million were written off.

On May 4, 2022 (the "May 2022 Facility" "Facility Closing Date"), Paycom Payroll, LLC, (the "Borrower"), Software, and certain other subsidiaries of Software (collectively, the "Guarantors," and collectively with the Borrower, the "Loan Parties"), entered into a credit agreement (as amended from time to time, the "May 2022 Revolving Credit Agreement") with Bank of America, N.A., as a lender, swingline lender and letters of credit issuer, the lenders from time to time party thereto and Bank of America, N.A., as the administrative agent.

The May 2022 Revolving Credit Agreement provided for a senior secured revolving credit facility (the "May 2022 Facility") in the initial aggregate principal amount of up to \$250.0 million, and the ability to request an incremental facility of up to an additional \$100.0 million, subject to obtaining additional lender commitments and certain approvals and satisfying certain other conditions. The May 2022 Facility included a \$25.0 million sublimit for swingline loans and a \$2.5 million sublimit for letters of credit. On June 7, 2022, the aggregate commitments under the May 2022 Revolving Credit Agreement were increased from \$250.0 million to \$350.0 million. Our obligations under the May 2022 Facility were secured by a senior security interest in all personal property of the Loan Parties. The May 2022 Facility was scheduled to mature on May 4, 2027.

On the May 2022 Facility Closing Date, we borrowed \$29.0 million under the May 2022 Facility to repay the 2017 Term Loans, along with accrued interest, expenses and fees. The loan on the May 2022 Facility Closing Date bore interest at the BSBY rate plus 1.125%. In connection with the repayment of the 2017 Term Loans, the 2017 Term Credit Agreement was terminated on May 4, 2022.

As discussed below, the May 2022 Facility was repaid in full on July 29, 2022 and the May 2022 Revolving Credit Agreement was terminated.

On July 29, 2022 (the "July 2022 Facility Closing Date"), the Borrower, Software, and certain other subsidiaries of Software entered into a new credit agreement (the "July 2022 Credit" Credit Agreement") with JPMorgan Chase Bank, N.A., as a lender, swingline lender and issuing bank, the lenders from time to time party thereto (collectively with JPMorgan Chase Bank, N.A., the "July 2022 Lenders" "Lenders"), and JPMorgan Chase Bank, N.A., as the administrative agent.

The July 2022 Credit Agreement initially provided for a senior secured revolving credit facility (the "July 2022 Revolving" Revolving Credit Facility") in the aggregate principal amount of up to \$650.0 million, and the ability to request an incremental facility of up to an additional \$500.0 million, subject to obtaining additional lender commitments and certain approvals and satisfying certain other conditions. The July 2022 Credit Agreement includes a \$25.0 million sublimit for swingline loans and a \$6.5 million sublimit for letters of credit. The July 2022 Credit Agreement also initially provided for a senior secured delayed draw term loan (the "July 2022 Term" Term Loan Facility") in the aggregate amount of up to \$750.0 million. As discussed below, the July 2022 Term Loan Facility was terminated on July 28, 2023. All loans under the July 2022 Credit Agreement will mature on July 29, 2027 (the "Scheduled Maturity Date"). Unamortized debt issuance costs of \$4.2 3.7 million as of September 30, 2023 March 31, 2024 are included in "Other assets" other assets on our consolidated balance sheets.

The borrowings On the Facility Closing Date, we borrowed \$29.0 million under the Revolving Credit Facility to repay the outstanding indebtedness under our prior credit facility, along with accrued interest, expenses and fees. The loan bore interest at the Adjusted Term SOFR Rate (as defined below) for the interest period in effect plus 1.25%.

On July 2022 28, 2023, the Loan Parties entered into Amendment No. 2 to Credit Agreement with the Lenders, pursuant to which, among other things, (i) the aggregate revolving commitments under the Revolving Credit Facility were increased from \$650.0 million to \$1.0 billion, (ii) the Term Loan Facility was terminated and (iii) the Credit Agreement was amended in contemplation of the formation and future operating activities of the Paycom Client Trust (the "Client Trust") and Paycom National Trust Bank, NA (the "Trust Bank"). The Company intends to form the Client Trust to hold client payroll and related funds and the Trust Bank to serve as trustee of the Client Trust. We did not make any draws under the Term Loan Facility prior to its termination on July 28, 2023. At the time of termination, unamortized debt issuance costs totaling \$1.2 million were written off and recognized as a loss on extinguishment of debt, which was included in other income, net in the consolidated statements of comprehensive income.

On November 21, 2023, we fully repaid the outstanding indebtedness under the Revolving Credit Facility. As of March 31, 2024, there was no debt outstanding under the Revolving Credit Facility.

Borrowings under the Credit Agreement bear interest at a rate per annum equal to (i) the Alternate Base Rate ("ABR") plus an applicable margin ("ABR Loans") or (ii) (x) the term Secured Overnight Financing Rate ("SOFR") plus 0.10% (the

"Adjusted Term SOFR Rate") or (y) the daily SOFR plus 0.10%, in each case plus an applicable margin ("SOFR Rate Loans"). ABR is calculated as the highest of (i) the rate of interest last quoted by The Wall Street Journal in the United States as the prime rate in effect, (ii) the federal funds rate plus 0.5% and (iii) the Adjusted Term SOFR Rate for a one-month interest period plus 1.00%; provided that, if the ABR as determined pursuant to the foregoing would be less than 1.00%, such rate shall be deemed to be 1.00%.

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The applicable margin for ABR Loans is (i) 0.25% if the Company's consolidated leverage ratio is less than 1.0 to 1.0; (ii) 0.50% if the Company's consolidated leverage ratio is greater than or equal to 1.0 to 1.0 but less than 2.0 to 1.0; (iii) 0.75% if the Company's consolidated leverage ratio is greater than or equal to 2.0 to 1.0 but less than 3.0 to 1.0; or (iv) 1.00% if the Company's consolidated leverage ratio is greater than or equal to 3.0 to 1.0. The applicable margin for SOFR Rate Loans is (i) 1.25% if the Company's consolidated leverage ratio is less than 1.0 to 1.0; (ii) 1.5% if the Company's consolidated leverage ratio is greater than or equal to 1.0 to 1.0 but less than 2.0 to 1.0; (iii) 1.75% if the Company's consolidated leverage ratio is greater than or equal to 2.0 to 1.0 but less than 3.0 to 1.0; or (iv) 2.00% if the Company's consolidated leverage ratio is greater than or equal to 3.0 to 1.0. **Subject to certain conditions set forth in the Credit Agreement, we may borrow, prepay and reborrow under the Revolving Credit Facility and terminate or reduce the Lenders' commitments at any time prior to the Scheduled Maturity Date.** We are required to pay a quarterly commitment fee on the daily amount of the undrawn portion of the revolving commitments under the **July 2022 Revolving Credit Facility** and, prior to its termination, a quarterly ticking fee on the daily amount of the undrawn portion of the **July 2022 Term Loan Facility**, in each case at a rate per annum of (i) 0.20% if the Company's consolidated leverage ratio is less than 1.0 to 1.0; (ii) 0.225% if the Company's consolidated leverage ratio is greater than or equal to 1.0 to 1.0 but less than 2.0 to 1.0; (iii) 0.25% if the Company's consolidated leverage ratio is greater than or equal to 2.0 to 1.0 but less than 3.0 to 1.0; or (iv) 0.275% if the Company's consolidated leverage ratio is greater than or equal to 3.0 to 1.0. **We are also required to pay customary letter of credit fees upon drawing any letter of credit.**

The July 2022 Revolving Credit Facility provides for no scheduled principal amortization prior to the Scheduled Maturity Date. Subject to certain conditions set forth in the July 2022 Credit Agreement, we may borrow, prepay and reborrow under the July 2022 Revolving Credit Facility and terminate or reduce the July 2022 Lenders' commitments at any time prior to the Scheduled Maturity Date.

The proceeds of the loans and letters of credit under the July 2022 Credit Agreement are to be used for ongoing working capital and general corporate purposes, permitted acquisitions, share repurchases and refinancing the May 2022 Facility. On the July 2022 Facility Closing Date, we borrowed \$29.0 million under the July 2022 Revolving Credit Facility to repay the outstanding indebtedness under the May 2022 Facility, along with accrued interest, expenses and fees. The loan bears interest at the Adjusted Term SOFR Rate for the interest period in effect plus 1.25%. In connection with the repayment of the May 2022 Facility, the May 2022 Revolving Credit Agreement was terminated on July 29, 2022.

Under the **July 2022** Credit Agreement, we are required to maintain as of the end of each fiscal quarter a consolidated interest coverage ratio of not less than 3.0 to 1.0 and a consolidated leverage ratio of not greater than **3.75** **3.5** to 1.0, **initially**, stepping down to **3.25** to 1.0 as of December 31, 2024 and **3.0** to 1.0 **at intervals as of December 31, 2025**, and thereafter. Additionally, the **July 2022** Credit Agreement contains customary affirmative and negative covenants, including covenants limiting our ability to, among other things, grant liens, incur debt, effect certain mergers, make investments, dispose of assets, enter into certain transactions, including swap agreements and sale and leaseback transactions, pay dividends or distributions on our capital stock, and enter into transactions with affiliates, in each case subject to customary exceptions. As of **September 30, 2023** **March 31, 2024**, we were in compliance with these covenants. Our obligations under the **July 2022** Credit Agreement are secured by a senior security interest in all personal property of the Loan Parties.

The events of default under the **July 2022** Credit Agreement include, among others, payment defaults, breaches of covenants, defaults under the related loan documents, material misrepresentations, cross defaults with certain other material indebtedness, bankruptcy and insolvency events, judgment defaults, certain events related to plans subject to the Employee Retirement Income Security Act of 1974, as amended, invalidity of the **July 2022** Credit Agreement or the related loan documents and change in control events. The occurrence of an event of default could result in the acceleration of our obligations under the **July 2022** Credit Agreement, the requirement to post cash collateral with respect to letters of credit, the termination of the **July 2022** Lenders' commitments and a 2.0% increase in the rate of interest.

On July 28, 2023, the Borrower, Software, and certain other subsidiaries of Software entered into Amendment No. 2 to Credit Agreement ("Amendment No. 2") with the **July 2022** Lenders, pursuant to which, among other things, (i) the aggregate revolving commitments under the **July 2022** Revolving Credit Facility were increased from \$650.0 million to \$1.0 billion, (ii) the **July 2022** Term Loan Facility was terminated and (iii) the **July 2022** Credit Agreement was amended in contemplation of the formation and future operating activities of the Paycom Client Trust (the "Client Trust") and Paycom National Trust Bank, NA (the "Trust Bank"). The Company intends to form the Client Trust to hold client payroll and related funds and the Trust Bank to serve as trustee of the Client Trust. We did not make any draws under the **July 2022** Term Loan Facility prior to its termination on July 28, 2023. At the time of termination, unamortized debt issuance costs totaling \$1.2 million were written off and recognized as a loss on extinguishment of debt, which is included in Other income, net in the consolidated statements of comprehensive income.

As of September 30, 2023 and December 31, 2022, the carrying value of our total long-term debt approximated its fair value as of such date. The fair value of our long-term debt is estimated based on the borrowing rates currently available to us for bank loans with similar terms and maturities. **13**

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7. DERIVATIVE INSTRUMENTS

In December 2017, we entered into a floating-to-fixed interest rate swap agreement to limit the exposure to floating interest rate risk related to the 2017 Term Loans. We do not hold derivative instruments for trading or speculative purposes. The interest rate swap agreement effectively converted a portion of the variable interest rate payments to fixed interest rate payments. We account for our derivatives under ASC Topic 815, "Derivatives and Hedging," and recognize all derivative instruments in the consolidated balance sheets at fair value as either short-term or long-term assets or liabilities based on their anticipated settlement date. See Note 9, "Fair Value of Financial Instruments". We have elected not to designate our interest rate swap as a hedge; therefore, changes in the fair value of the derivative instrument were recognized in our consolidated statements of comprehensive income within Other income (expense), net.

The objective of the interest rate swap was to reduce the variability in the forecasted interest payments of the 2017 Term Loans, which was based on a one-month USD LIBOR rate versus a fixed interest rate of 2.54% on a notional value of \$35.5 million. Under the terms of the interest rate swap agreement, we received quarterly variable interest payments based on the LIBOR rate and paid interest at a fixed rate. As further discussed in Note 6, on May 4, 2022, we repaid the 2017 Term Loans and terminated the 2017 Term Credit Agreement. The interest rate swap agreement had a maturity date of September 7, 2025. On August 24, 2022, we terminated the interest rate swap by settling the contract, which resulted in a cash receipt of \$0.5 million. The realized gain from the settlement of the interest rate swap contract is included in Other income (expense), net in the consolidated statements of comprehensive income.

8. CORPORATE INVESTMENTS AND FUNDS HELD FOR CLIENTS

The tables below present our cash and cash equivalents, the funds held for clients cash and cash equivalents as well as the investments that were included within funds held for clients on the consolidated balance sheets:

Type of issue	September 30, 2023				March 31, 2024			
	Amort	Gross unrealized	Gross unrealized	Fair value	Amortized	Gross unrealized	Gross unrealized	Fair value
	ized	ed	ed	value	cost	gains	losses	
	cost	gains	losses	value	cost	gains	losses	
	484			48				
	,02			4,0				
Cash and cash equivalents	\$ 8	\$ —	\$ 28	\$ 371,325	\$ —	\$ —	\$ —	\$ 371,325

Funds held for clients cash and cash equivalents	1,702,301	—	—	1	2,618,450	—	—
Available-for-sale securities (1):							
Certificates of deposit	25,000	—	—	0			
U.S. treasury securities	174,755	—	(2,710)	2,045	109,960	—	(419) 109,541
					2,3		
	2,3			83,			
	86,		(2,71)	37			
Total investments	\$ 084	\$ —	\$ 0	\$ 4	\$ 3,099,735	\$ —	\$ (419) \$ 3,099,316

Type of issue	December 31, 2022				December 31, 2023			
	Gross amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	cost	gains	losses	value	cost	gains	losses	Fair value
Cash and cash equivalents	400			40				
	,73			0,7				
	\$ 0	\$ —	\$ —	\$ 30	\$ 294,025	\$ —	\$ —	\$ 294,025
Funds held for clients cash and cash equivalents	2,008,365	—	—	5	2,128,735	—	—	2,128,735
Available-for-sale securities (1):								
Certificates of deposit	25,000	—	—	0	25,000	—	—	25,000

U.S. treasury securities	174,36	16,9,6					
	7	—	7)	10	174,887	—	(1,256) 173,631
				2,6			
				2,6	03,		
				08,	(4,75)	70	
Total investments	\$ 462	\$ —	\$ 7)	\$ 5	\$ 2,622,647	\$ —	\$ (1,256) \$ 2,621,391

(1) All available-for-sale securities were included within the funds held for clients.

The unrealized losses and fair values of available-for-sale securities that have been in an unrealized loss position for a period of less than and greater than 12 months as of **September 30, 2023** **March 31, 2024**, are as follows:

September 30, 2023						
Type of issue	Securities in unrealized loss position for less than twelve months		Securities in unrealized loss position for greater than twelve months		Total	
	Gross unrealized		Gross unrealized		Gross unrealized	
	losses	Fair value	losses	Fair value	losses	Fair value
U.S. treasury securities	\$ —	\$ —	\$ (2,710)	\$ 172,045	\$ (2,710)	\$ 172,045
Total	\$ —	\$ —	\$ (2,710)	\$ 172,045	\$ (2,710)	\$ 172,045

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March 31, 2024						
Type of issue	Securities in unrealized loss position for less than 12 months		Securities in unrealized loss position for greater than 12 months		Total	
	Gross unrealized		Gross unrealized		Gross unrealized	
	losses	Fair value	losses	Fair value	losses	Fair value
U.S. treasury securities	\$ —	\$ —	\$ (419)	\$ 109,541	\$ (419)	\$ 109,541
Total	\$ —	\$ —	\$ (419)	\$ 109,541	\$ (419)	\$ 109,541

The unrealized losses and fair values of available-for-sale securities that have been in an unrealized loss position for a period of less than and greater than 12 months as of December 31, 2022 December 31, 2023, are as follows:

December 31, 2022						December 31, 2023					
Type of issuer	Securities in unrealized loss position for less than twelve months		Securities in unrealized loss position for greater than twelve months		Total	Securities in unrealized loss position for less than 12 months		Securities in unrealized loss position for greater than 12 months		Total	
	Gross losses	Fair value	Gross losses	Fair value		Gross losses	Fair value	Gross losses	Fair value		
U.S. treasuries	1	6	1	6	1	1	6	1	6	1	
surveys	6	9	6	9	6	6	9	6	9	6	
securities	9,	,	9,	,	9,	9,	,	9,	,	9,	
utilities	6	(4,	6	(4,	6	6	(4,	6	(4,	6	
es	(4,7	1	75	1	75	1	75	1	75	1	
	\$ (57)	\$ 0	\$ —	\$ —	\$ 0	\$ —	\$ —	\$ (1,256)	\$ 173,631	\$ (1,256)	\$ 173,631
Totals	1	6	1	6	1	1	6	1	6	1	
al	6	9	6	9	6	6	9	6	9	6	
	9,	,	9,	,	9,	9,	,	9,	,	9,	
	6	(4,	6	(4,	6	6	(4,	6	(4,	6	
	(4,7	1	75	1	75	1	75	1	75	1	
	\$ (57)	\$ 0	\$ —	\$ —	\$ 0	\$ —	\$ —	\$ (1,256)	\$ 173,631	\$ (1,256)	\$ 173,631

We did not make any reclassification adjustments out of accumulated other comprehensive income for realized gains or losses on the sale or maturity of available-for-sale securities for the nine months ended September 30, 2023 March 31, 2024 or 2022. There were no realized gains or losses on the sale of available-for-sale securities for the nine months ended September 30, 2023 March 31, 2024 or 2022.

We regularly review the composition of our investment portfolio and did not recognize any credit impairment losses during the nine three months ended September 30, 2023 March 31, 2024 or 2022. The Company believes it is

probable that the principal and interest will be collected in accordance with contractual terms and that the unrealized losses on these securities were due to changes in interest rates and were not due to increased credit risk. The U.S. treasury securities held a rating of AA+ as of **September 30, 2023** **March 31, 2024**.

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Expected maturities of available-for-sale securities at **September 30, 2023** **March 31, 2024** are as follows:

Expected maturity	Amortized	Fair			Fair value
	cost	value	Amortized cost		
		197,0			
One year or less	\$ 199,755	\$ 45	\$ 109,960		\$ 109,541
One year to five years	\$ —	\$ —	\$ —		\$ —
Total available-for-sale securities	\$ 199,755	\$ 45	\$ 109,960		\$ 109,541

9.8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, funds held for clients, client funds obligation and long-term debt. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, funds held for clients and client funds obligation approximates fair value due to the short-term nature of the instruments. See Note 6 for discussion of the fair value of our debt.

Our corporate investments consist primarily of money market funds and demand deposit accounts and are classified as cash and cash equivalents on the consolidated balance sheets.

As discussed in Note 2, we typically invest the funds held for clients in money market funds, demand deposit accounts, certificates of deposit, and commercial paper and U.S. treasury securities. Short-term investments in instruments with an original maturity of less than three months and classify these items are classified as cash and cash equivalents within the funds held for clients line item in the consolidated balance sheets. Short-term investments Investments in certificates of deposit and commercial paper instruments with an original maturity greater than three months are classified as available-for-sale securities and are also included within the funds held for clients line item. in the consolidated balance sheets. These available-for-sale securities are recognized in the consolidated balance sheets at fair value, with the

difference between the amortized cost and fair value of these available-for-sale securities recorded as unrealized net gains (losses) within comprehensive earnings (loss) in our consolidated statements of comprehensive income. See Note 8 for additional information.

We also invest funds held for clients in U.S. treasury securities with initial maturity durations greater than one year. These U.S. treasury securities are classified as available-for-sale securities and included within the funds held for clients line item. The unrealized gains and losses associated with these available-for-sale securities are included within comprehensive earnings (loss) in our consolidated statements of comprehensive income. See Note 8 for additional information.

As discussed in Note 7, during the year ended December 31, 2017, we entered into an interest rate swap. While outstanding, the interest rate swap was measured on a recurring basis based on quoted prices for similar financial instruments and other observable inputs recognized at fair value. We terminated the interest rate swap on August 24, 2022.

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The accounting standard for fair value measurements establishes a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted prices in active markets
- Level 2 – Inputs other than quoted prices in active markets for identical assets or liabilities that are observable either directly or indirectly or quoted prices that are not active
- Level 3 – Unobservable inputs in which there is little or no market data

Included in the following tables are the Company's major categories of assets and liabilities measured at fair value on a recurring basis as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**:

	September 30, 2023				March 31, 2024			
	Level		Level		Level		Level	
	1	2	3	Total	1	2	3	Total
Assets:								
Certificates of deposit		25,00		25,00				
U.S. treasury securities	\$ —	\$ 0	\$ —	\$ 0				
	172,0		172,0					
	\$ —	\$ 45	\$ —	\$ 45	\$ —	\$ 109,541	\$ —	\$ 109,541

	December 31, 2022				December 31, 2023								
	Level		Level		Level 1		Level 2		Level 3		Total		
	1	Level 2	3	Total									
Assets:													
Certificates of deposit		25,00		25,00		\$ —	\$ 0	\$ —	\$ 0	\$ —	\$ 25,000	\$ —	\$ 25,000
U.S. treasury securities		169,6		169,6		\$ —	\$ 10	\$ —	\$ 10	\$ —	\$ 173,631	\$ —	\$ 173,631

10.9. EMPLOYEE SAVINGS PLAN AND EMPLOYEE STOCK PURCHASE PLAN

Employees over the age of 18 who have completed ninety 30 days of service are eligible to participate in our 401(k) plan. employee savings plan (401(k) plan). We have made a Qualified Automatic Contribution Arrangement ("QACA") election, whereby the Company matches the contribution of our employees equal to 100% of the first 1% of salary deferrals and 50% of salary deferrals between 2% and 6%, up to a maximum matching contribution of 3.5% of an employee's salary each plan year. We are allowed to make additional discretionary matching contributions and discretionary profit sharing contributions. Employees are 100% vested in amounts attributable to salary deferrals and rollover contributions. The QACA matching contributions as well as the discretionary matching and

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profit sharing contributions vest 100% after two years of employment from the date of hire. Matching contributions were \$4.0 4.6 million and \$11.8 4.0 million for the three and nine months ended September 30, 2023, respectively. Matching contributions were \$3.3 million March 31, 2024 and \$9.9 million for the three and nine months ended September 30, 2022, 2023, respectively.

The ESPP Paycom Software, Inc. Employee Stock Purchase Plan (the "ESPP") has overlapping offering periods, with each offering period lasting approximately 24 months. At the beginning of each offering period, eligible employees may elect to contribute, through payroll deductions, up to 10% of their compensation, subject to an annual per-employee maximum of \$25,000. Eligible employees purchase shares of the Company's common stock at a price equal to 85% of the fair market value of the shares on the exercise date. The maximum number of shares that may be purchased by a participant during each offering period is 2,000 shares, subject to limits specified by the Internal Revenue Service. The

shares reserved for purposes of the ESPP are shares we purchase in the open market. The maximum aggregate number of shares of the Company's common stock that may be purchased by all participants under the ESPP is 2.0 million shares. Eligible employees purchased 52,323 37,629 and 40,997 26,587 shares of the Company's common stock under the ESPP during the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Compensation expense related to the ESPP is recognized on a straight-line basis over the requisite service period. Our compensation expense related to the ESPP was \$0.9 million and \$2.6 0.9 million for the three and nine months ended September 30, 2023, respectively. Our compensation expense related to the ESPP was \$0.7 million March 31, 2024 and \$2.1 million for the three and nine months ended September 30, 2022, 2023, respectively.

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11.10 EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed in a similar manner to basic earnings per share after assuming the issuance of shares of common stock for all potentially dilutive equity incentive awards.

The following is a reconciliation of net income and the shares of common stock used in the computation of basic and diluted earnings per share:

	Three Months		Nine Months		Three Months Ended March 31,			
	Ended		Ended					
	September 30,		September 30,					
	2023	2022	2023	2022				
Numerator:					2024	2023		
Net income	75,2	52,1	259,	201,	\$ 247,187	\$ 119,296		
Denominator:								
Basic weighted average shares outstanding	57,8	57,8	57,8	57,9				
Dilutive effect of unvested restricted stock and restricted stock units	25	65	71	49	56,546	57,867		
Diluted weighted average shares outstanding	141	168	185	244	6	124		
Earnings per share:	57,9	58,0	58,0	58,1	56,552	57,991		

Basic	\$ 1.30	\$ 0.90	\$ 4.48	\$ 3.48	\$	4.37	\$	2.06
Diluted	\$ 1.30	\$ 0.90	\$ 4.46	\$ 3.46	\$	4.37	\$	2.06

12.11 STOCK-BASED COMPENSATION

Restricted Stock Awards

In May 2023, During the stockholders three months ended March 31, 2024, we issued an aggregate of the Company approved 638,447 restricted shares of common stock under the Paycom Software, Inc. 2023 Long-Term Incentive Plan (the "2023 LTIP"), which provides for the granting of equity-based awards to the Company's employees, contractors and outside directors. Subject to certain adjustments, the maximum number of shares of common stock that may be delivered pursuant to awards under the 2023 LTIP is 3,600,000, subject to increase by any awards under the Paycom Software, Inc. 2014 Long-Term Incentive Plan (as amended, the "2014 LTIP") (i) that are outstanding on or after May 1, 2023, and that, on or after such date, are forfeited, expire or are canceled (but excluding the restricted stock award granted to Mr. Richison on November 23, 2020); and (ii) any shares subject to awards relating to common stock under the 2014 LTIP that are settled in cash on or after May 1, 2023.

During the nine months ended September 30, 2023, we issued an aggregate of 575,467 restricted shares of common stock under the 2014 LTIP and the 2023 LTIP, consisting of 87,618 187,078 shares subject to market-based vesting conditions ("Market-Based Shares") and 487,849 451,369 shares subject to time-based or no vesting conditions ("Time-Based Shares"). Generally, Market-Based Shares will vest 50% on the first date, if any, that the arithmetic average of the Company's volume weighted average price on each of the twenty consecutive trading days immediately preceding such date (the "VWAP Value") equals or exceeds \$404 222 per share and 50% on the first date, if any, that the Company's VWAP Value equals or exceeds \$466 251 per share, in each case provided that (i) such date occurs on or before the eighth anniversary of the grant date and (ii) the recipient is employed by, or providing services to, the Company on the applicable vesting date, and subject to the terms and conditions of the 2014 LTIP or the 2023 LTIP as applicable, and the applicable restricted stock award agreement. The Generally, the Time-Based Shares granted to non-executive employees will vest over periods ranging from three to approximately four years, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date, and subject to the terms and conditions of the 2014 LTIP or the 2023 LTIP, as applicable, and the applicable restricted stock award agreement.

The Time-Based Shares mentioned above include an aggregate of 5,523 Time-Based Shares issued to the non-employee members of the Board of Directors in May 2023 under the 2023 LTIP. Such shares of restricted stock will cliff-vest on the seventh day following the first anniversary of the date of grant, provided that such director is providing services to the Company through the applicable vesting date, and subject to the terms and conditions of the 2023 LTIP and the applicable restricted stock award agreement.

(tabular dollars and shares in thousands, except per share and per unit amounts)

The following table summarizes restricted stock awards activity for the nine months ended September 30, 2023:

	Time-Based		Market-Based	
	Restricted Stock Awards		Restricted Stock Awards	
	Weighted		Weighted	
	Average		Average	
		Grant Date Fair		Grant Date Fair
		Shares	Value	Shares
				Value
Unvested shares of restricted stock outstanding at December 31, 2022	479.1	\$ 315.04	1,677.0	\$ 116.36
Granted	487.8	\$ 313.36	87.6	\$ 316.12
Vested	(131.5)	\$ 293.48	—	\$ —
Forfeited	(61.2)	\$ 325.79	(15.7)	\$ 298.67
Unvested shares of restricted stock outstanding at September 30, 2023	<u>774.2</u>	<u>\$ 316.79</u>	<u>1,748.9</u>	<u>\$ 124.73</u>

Restricted Stock Units

In February 2023, we issued, in the aggregate, 5,232 shares of common stock upon the vesting of performance-based restricted stock units ("PSUs") awarded to certain executive officers in February 2021. The number of shares delivered upon vesting of the PSUs was determined based on the Company's achievement of a Relative Total Stockholder Return ("Relative TSR") performance goal, which compared the Company's Total Stockholder Return ("TSR") to the TSR of a peer group for the two-year performance period that commenced on January 1, 2021 and ended on December 31, 2022.

For purposes of the PSU awards, TSR was determined by dividing (i) the sum of (A) the average VWAP of a share of the Company's common stock or the common stock of a peer company, as applicable, during the final 60 trading day period of the applicable performance period, less (ii) the average VWAP of a share of the Company's common stock or the common stock of a peer company, as applicable, during the 60 trading day period ending on December 31, 2020, plus (iii) the sum of all dividends which are paid by the Company (or the member of the peer group) to its stockholders, assuming such dividends are reinvested in the applicable company through the applicable performance period, by (ii) the average VWAP of a share of the Company's common stock or the common stock of a peer company, as applicable, during the 60 trading day period ending on December 31, 2020. For purposes of the PSU awards granted in 2021, the Company's peer group includes 34 publicly traded companies, which were reflective of the S&P 500 Software & Services index on the grant date.

On April 3, 2023, the Company announced the resignation of Justin Long from the position of Vice President of Operations of the Company, effective March 28, 2023. In connection with Mr. Long's resignation, the Company, Paycom Payroll, LLC and Mr. Long entered into a Severance and Release Agreement (the "Severance Agreement"), which became effective on April 8, 2023, pursuant to which 1,505 Time-Based Shares previously granted to Mr. Long accelerated in vesting.

On May 2, 2023, the Company issued the following awards to executive officers under the 2023 LTIP: (i) an aggregate of 39,131 PSUs; (ii) an aggregate of 8,695 time-based restricted stock units ("RSUs"); and (iii) an aggregate of 142,000 Time-Based Shares. The number of shares deliverable upon vesting of such PSUs will be determined based on achievement of pre-established performance goals. The performance goals vary for each executive officer but are based on the Company's revenue, adjusted EBITDA, the daily volume weighted average price of the Company's common stock and annual revenue retention rate, in each case for the one-year performance period from January 1, 2023 to December 31, 2023. The PSUs will be eligible to vest following the performance period, but no later than February 29, 2024, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date, and subject to the terms and conditions of the 2023 LTIP and the applicable restricted stock unit award agreement. The RSUs will vest in three equal annual tranches over a period of approximately two and a half years, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date, and subject to the terms and conditions of the 2023 LTIP and the applicable restricted stock unit award agreement. The Time-Based Shares will vest in four annual tranches over a period of approximately three and a half years, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date, and subject to the terms and conditions of the 2023 LTIP and the applicable restricted stock award agreement. The Time-Based Shares include 4,104 shares of common stock granted to Chris G. Thomas in connection with his appointment as Co-Chief Executive Officer of the Company effective February 7, 2024.

19 In connection with the Co-Chief Executive Officer transition, the Company and Chad Richison entered into a letter agreement pursuant to which, among other things, Mr. Richison acknowledged and agreed that the change in his position from Chief Executive Officer to Co-Chief Executive Officer triggered the forfeiture of 1,610,000 shares of restricted stock granted to him on November 23, 2020 (the "2020 CEO Performance Award") in accordance with the terms of the award. As a result, on February 7, 2024, 1,610,000

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(tabular dollars and shares in thousands, except per share and per unit amounts)

shares of restricted stock were forfeited to the Company and \$117.5 million of previously recognized compensation costs that were recorded in reporting periods prior to 2024 were reversed to additional paid-in capital in the consolidated balance sheets and to general and administrative expenses in the consolidated statements of comprehensive income.

The following table summarizes restricted stock awards activity for the three months ended March 31, 2024:

Time-Based	Market-Based

	Restricted Stock Awards			Restricted Stock Awards		
			Weighted Average			Weighted Average
			Grant Date Fair			Grant Date Fair
	Shares	Value		Shares	Value	
Unvested shares of restricted stock outstanding at December 31, 2023	904.0	\$ 293.74		1,745.5	\$ 124.38	
Granted	451.4	\$ 185.46		187.1	\$ 167.48	
Vested	(36.7)	\$ 265.98		—	\$ —	
Forfeited	(37.8)	\$ 290.52		(1,620.3)	\$ 110.53	
Unvested shares of restricted stock outstanding at March 31, 2024	1,280.9	\$ 256.48		312.3	\$ 222.04	

Restricted Stock Units

During the three months ended March 31, 2024, we issued the following restricted stock unit awards to certain of our executive officers, in each case subject to the terms and conditions of the 2023 LTIP and the applicable restricted stock unit award agreement: (i) an aggregate of 41,230 performance-based restricted stock units ("PSUs"), with the number of shares deliverable upon vesting of such PSUs to be determined based on achievement of a pre-established revenue performance goal for the one-year performance period from January 1, 2024 to December 31, 2024; (ii) an aggregate of 26,230 time-based restricted stock units ("RSUs") vesting in three equal annual tranches over a period of approximately three years, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date; and (iii) 17,209 RSUs, with 24% vesting in February 2025, 24% vesting in February 2026 and 52% vesting in February 2027, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date. The PSUs will be eligible to vest no later than 60 days following the end of the performance period, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date.

During the three months ended March 31, 2024, 75,464 PSUs (consisting of PSUs granted to certain executive officers in 2021, 2022 and 2023) were eligible to vest based on the Company's performance during a performance period ended December 31, 2023. On February 5, 2024, we issued 4,472 shares of common stock upon the vesting of PSUs awarded to Mr. Boelte in May 2023. The number of shares delivered upon vesting of such PSUs was determined based on the Company's achievement of an adjusted EBITDA performance goal. With respect to all other PSUs eligible to vest based on the Company's performance during a performance period ended December 31, 2023, the relevant performance goals were not achieved and, as a result, none of such PSUs vested and all were forfeited.

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The following table summarizes PSU and RSU activity for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**:

	Time RSUs		PSUs		RSUs		PSUs	
	Weighted		Weighted					
	d		d					
	Average		Average					
	Grant		Grant					
	Date		Date					
	Fair		Fair		Weighted Average		Weighted Average	
	Uni	Value	Uni	Value	Grant Date Fair		Grant Date Fair	
	ts	Per Unit	ts	Per Unit	Units	Value Per Unit	Units	Value Per Unit
Unvested restricted stock units outstanding at December 31, 2022	0.5	\$ 01	7.8	\$ 13	7			
Unvested restricted stock units outstanding at December 31, 2023	9.2	\$ 300.74	37.2	\$ 308.05				
Granted	8.8	\$ 297.49	9.1	\$ 244.39	3			
Vested	(0.1)	\$ 377.01	(5.2)	\$ 526.66	8.43.4	\$ 190.41	41.2	\$ 189.95
Forfeited	—	\$ —	.5)	\$ 66	(5.29.75	\$ 297.55	(4.4)	\$ 288.77
Unvested restricted stock units outstanding at September 30, 2023 ⁽¹⁾	9.2	\$ 300.74	8.2	\$ 340.08	1			
Unvested restricted stock units outstanding at March 31, 2024 ⁽¹⁾	49.7	\$ 204.52	74.0	\$ 243.38				

(1) A maximum of 211,806 123,078 shares could be delivered upon settlement of PSUs based upon the Company's achievement of the applicable performance goals over the applicable performance periods.

For the three and nine months ended September 30, 2023 March 31, 2024, the Company recognized stock-based compensation expense, inclusive of forfeitures, that totaled a net benefit of \$93.8 million. For the three months ended March 31, 2023, our total stock-based compensation expense was \$33.2 27.8 million and \$96.4 million, respectively. For the three and nine months ended September 30, 2022, our total stock-based compensation expense was \$24.5 million and \$70.8 million, respectively, million.

The following table presents the unrecognized compensation cost and the related weighted average recognition period associated with unvested restricted stock awards and unvested restricted stock units (including RSUs and PSUs) as of September 30, 2023 March 31, 2024.

	Restricted Stock		Restricted Stock	
	Awards	Stock Units	Restricted Stock	
			Awards	Stock Units
Unrecognized compensation cost	\$ 270,993	\$ 8,803	\$ 270,863	\$ 10,581
Weighted average period for recognition (years)	2.5	0.8	2.8	1.5

We capitalized stock-based compensation costs related to software developed for internal use of \$3.8 million and \$11.5 3.6 million for the three and nine months ended September 30, 2023, respectively. We capitalized stock-based compensation costs related to software developed for internal use of \$2.4 million March 31, 2024 and \$6.5 million for the three and nine months ended September 30, 2022, 2023, respectively.

In May 2023, our Board of Directors adopted a dividend policy under which we intend to pay quarterly cash dividends on our common stock. All unvested shares of restricted stock, RSUs and PSUs currently outstanding are entitled to receive dividends or dividend equivalents, provided that such dividends or dividend equivalents are withheld by the Company and distributed to the applicable holder upon the release of restrictions on such shares of restricted stock, RSUs or PSUs (i.e., upon vesting).

13.12 COMMITMENTS AND CONTINGENCIES

We are involved in various legal proceedings in the ordinary course of business. Although we cannot predict the outcome of these proceedings, legal matters are subject to inherent uncertainties and there exists the possibility that the ultimate resolution of these matters could have a material adverse effect on our business, financial condition, results of operations and cash flows.

14.13 INCOME TAXES

The Company's effective income tax rate was 28.1 14.8% and 26.9 28.0% for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The increase in lower effective tax rate for the nine three months ended September 30, 2023 March 31, 2024 was primarily attributable to the tax benefit related to a decrease in the forfeiture of excess tax benefits from stock-based compensation. the 2020 CEO Performance Award in February 2024.

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15.14.SUBSEQUENT EVENTS

Sales Leadership Transition

In connection with her promotion to Executive Vice President of Sales, the Company granted to Amy Walker an award of 4,000 target PSUs (the "Walker Award"), effective April 4, 2024. The Walker Award is subject to the terms and conditions of the 2023 LTIP and an award agreement that provides for performance-based vesting based on achievement of revenue performance goals for the performance period that began January 1, 2024 and ends December 31, 2024. Pursuant to the applicable award agreement, 75% of

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the Walker Award will vest if the threshold performance level is achieved, 100% of the Walker Award will vest if the target performance level is achieved and 125% of the Walker Award will vest if the maximum performance level is achieved.

Holly Faurot, the Company's former Chief Sales Officer, transitioned to a non-employee consulting role. In connection with this transition, Ms. Faurot entered into an Independent Consultant and Services Agreement with Software's wholly owned subsidiary, Paycom Payroll, LLC, and a Release and Award Cancellation and Acceleration Agreement (the "Release Agreement") with Software, each dated April 4, 2024.

Pursuant to the Release Agreement, Ms. Faurot agreed to, among other things, the cancellation of (i) 30,370 unvested shares of restricted stock, (ii) 5,902 unvested RSUs and (iii) 10,782 unvested PSUs. As consideration for the cancellation of the specified unvested equity incentive awards and a release of claims, the Company accelerated vesting of 3,000 shares of time-based restricted stock previously granted to Ms. Faurot under the 2023 LTIP, effective April 4, 2024.

Director Equity Compensation

On October 12, 2023 April 29, 2024, the Company issued an aggregate of 12,150 7,296 restricted shares of common stock to certain non-executive employees the non-employee members of the Board of Directors under the 2023 LTIP,

consisting LTIP. Such shares of Time-Based Shares that restricted stock will vest in annual tranches over three years, cliff-vest on the seventh day following the first anniversary of the date of grant, provided that the recipient such director is employed by, or providing services to the Company on through the applicable vesting date, and subject to the terms and conditions of the 2023 LTIP and the applicable restricted stock award agreement.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide a reader of our financial statements with management's perspective on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (i) the accompanying unaudited consolidated financial statements and notes thereto for the three and nine months ended September 30, 2023 March 31, 2024, (ii) the audited consolidated financial statements and notes thereto for the year ended December 31, 2022 December 31, 2023 included in our Annual Report on Form 10-K (the "Form 10-K") filed with the Securities and Exchange Commission (the "SEC") on February 16, 2023 February 15, 2024 and (iii) the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K. Except for certain information as of December 31, 2022 December 31, 2023, all amounts herein are unaudited. Unless we state otherwise or the context otherwise requires, the terms "we," "us," "our" and the "Company" refer to Paycom Software, Inc. and its consolidated subsidiaries. All amounts presented in tables, other than per share amounts, are in thousands unless otherwise noted.

Special Note Regarding Forward-Looking Statements

The following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are any statements that refer to Paycom's our estimated or anticipated results, other non-historical facts or future events and include, but are not limited to, statements regarding our business strategy; anticipated future operating results and operating expenses, cash flows, capital resources, dividends and liquidity; competition; trends, opportunities and risks affecting our business, industry and financial results; future expansion or growth plans and potential for future growth, including internationally; our ability to attract new clients to purchase our solution; our ability to retain clients and induce them to purchase additional applications; our ability to accurately forecast future revenues and appropriately plan our expenses; market acceptance of our solution and applications; our expectations regarding future revenues generated by certain applications; the return on investment for users of our solution; our ability to attract and retain qualified employees and key personnel; future regulatory, judicial and legislative changes; how certain factors affecting our performance correlate to improvement or deterioration in the labor market; our plan to open additional sales offices and our ability to effectively execute such plan; the sufficiency of our existing cash and cash equivalents to

meet our working capital and capital expenditure needs over the next 12 months; our plans regarding our capital expenditures and investment activity as our business grows, including with respect to research and development and the expansion of our corporate headquarters and other facilities; our plans to pay cash dividends; and our plans to repurchase shares of our common stock through a stock repurchase plan. In addition, forward-looking statements also consist of statements involving trend analyses and statements including such words as "anticipate," "believe," "could," "estimate," "expect," "will," "intend," "may," "might," "plan," "potential," "should," "will," "would," and similar expressions or the negative of such terms or other comparable terminology.

Forward-looking statements are neither historical facts nor assurances of future performance, and are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- the possibility of security vulnerabilities, **cyberattacks** **cyber-attacks** and network disruptions, including breaches of data security and privacy, security leaks, data loss, and business interruptions;
- changes in laws, government regulations and policies and interpretations thereof;
- our compliance with data privacy laws and regulations;
- our ability to develop enhancements and new applications, keep pace with technological developments and respond to future disruptive technologies;
- our ability to compete effectively;
- our ability to **manage our rapid growth** **maintain** and **organizational change effectively**;
- **fluctuations in our financial results due to** **expand existing client relationships and add new clients, including challenges related to factors beyond our control; attracting and retaining larger clients**;
- the possibility that clients may not be satisfied with our deployment or technical support services, or that our solution fails to perform properly;
- our dependence on our key executives;
- our ability to attract and retain qualified personnel, including software developers, product managers and skilled IT, sales, marketing and operational personnel;
- **our ability to manage our rapid growth and organizational change effectively**;

- the impact of adverse economic and market conditions, including those related to the global health crises and geopolitical conflicts;
- fluctuations in our financial results due to factors beyond our control;
- our failure to develop and maintain our brand cost-effectively;
- seasonality of certain operating results and financial metrics;
- our failure to adequately protect our intellectual property rights;
- our ability to expand into international markets and manage risks associated with international operations and sales;
- our reliance on relationships with third parties;
- regulatory and compliance risks related to our background checks business;
- our failure to adequately protect our intellectual property rights;
- seasonality of certain operating results and financial metrics;
- the possibility that the Affordable Care Act may be modified, repealed or declared unconstitutional; and
- the other factors set forth in Part I, Item 1A, "Risk Factors" of the Form 10-K and our other reports filed with the SEC.

Forward-looking statements are based only on information currently available to us and speak only as of the date of this Form 10-Q. We do not undertake any obligation to update or revise the forward-looking statements to reflect events that occur or circumstances that exist after the date on which such statements were made, except to the extent required by law.

Overview

We are a leading provider of a comprehensive, cloud-based human capital management ("HCM") solution delivered as Software-as-a-Service. We provide functionality and data analytics that businesses need to manage the complete employment lifecycle, from recruitment to retirement. Our solution requires virtually no customization and is based on a core system of record maintained in a single database for all HCM functions, including payroll, talent acquisition, talent management, human resources management and time and labor management, payroll, talent management and human resources management applications. Our user-friendly software allows for easy adoption of our solution by employees, enabling self-management of their HCM activities in the cloud, which reduces the administrative burden on employers and increases employee productivity.

We generate revenues from (i) fixed amounts charged per billing period plus a fee per employee or transaction processed and (ii) fixed amounts charged per billing period. We do not require clients to enter into long-term contractual commitments with us. Our billing period varies by client based on when each client pays its employees, which may be weekly, bi-weekly, semi-monthly or monthly. We serve a diverse client base in terms of size and industry. None of our clients constituted more than one-half of one percent of our revenues for the nine three months ended September 30,

2023 March 31, 2024. Our revenues are primarily generated through our sales force that solicits new clients and our client relations representatives ("CRRs") who sell new applications to existing clients.

Our continued growth depends on attracting new clients through further penetration of our existing markets and geographic expansion into new markets, targeting a high degree of client employee usage across our solution, and introducing new applications to our existing client base. We believe our ability to continue to develop new applications and to improve existing applications will enable us to increase revenues in the future, and the number of our new applications adopted by our clients has been a significant factor in our revenue growth. We plan to open additional sales offices in the future to further expand our market presence.

Our principal marketing efforts include national and local advertising campaigns, email campaigns, social and digital media campaigns, search engine marketing methods, sponsorships, tradeshows, print advertising and outbound marketing including personalized direct mail campaigns. In addition, we generate leads and build recognition of our brand and thought leadership with relevant and informative content, such as white papers, blogs, podcast episodes and webinars.

Throughout our history, we have built strong relationships with our clients. As the HCM needs of our clients evolve, we believe that we are well-positioned to expand the HCM spending of our clients and we believe this opportunity is significant. To be successful, we must continue to demonstrate the operational and economic benefits of our solution, as well as effectively hire, train, motivate and retain qualified personnel.

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Growth Outlook, Opportunities and Challenges

As a result of our significant revenue growth and geographic expansion, we are presented with a variety of opportunities and challenges. Our payroll application is the foundation of our solution and all of our clients are required to utilize this application in order to access our other applications. Consequently, we have historically generated the majority of our revenues from our payroll applications, although our revenue mix has evolved and will continue to evolve as we develop and add new non-payroll applications to our solution. We believe our strategy of focusing on increased employee usage is an important differentiator for attracting new clients and is also key to long-term client satisfaction and client retention. For example, in 2021, we launched our industry-first Beti technology, which further automates and streamlines the payroll process by empowering employees to do their own payroll. Client adoption of new applications and, historically, client employee usage of both new and existing applications have been significant factors in our revenue growth. Nonetheless, because Beti is designed to eliminate payroll errors that lead to billable corrections and unscheduled payroll runs, we have experienced and expect to continue to experience a reduction in these activities that would otherwise generate additional revenue for us.

In order to increase revenues and continue to improve our operating results, we must also attract new clients. We intend to obtain new clients by (i) continuing to leverage our sales force productivity within markets where we currently have existing sales offices, (ii) expanding our presence in metropolitan areas markets where we currently have an existing sales office through adding sales teams or offices, thereby increasing the number of sales professionals within such markets, and (iii) opening sales offices in new metropolitan areas markets.

The market for HCM software is highly competitive, rapidly evolving and fragmented, and we expect competition to continue to intensify as new market entrants and disruptive technologies emerge and increasingly aggressive pricing and client retention strategies persist.

Historically, our target client size range has been organizations with 50 to 10,000 employees. In 2023, we expanded our target client size range to include enterprise organizations with more than 10,000 employees. While we continue to serve a diversified client base ranging in size from one employee to many thousands of employees, the average size of our clients has grown significantly as we have organically grown our operations and increased the number of applications we offer and gained traction with larger companies. Furthermore, with the launch of our Global HCM solution and expansion of payroll services into Canada and Mexico, certain international markets, we expect that our ability to serve organizations with international employees makes our solution more attractive to larger companies, many of which have a global presence. We believe larger employers represent a substantial opportunity to increase our revenues per client, with limited incremental cost to us. Because we charge our clients on a per employee basis for certain services we provide, any increase or decrease in the number of employees of our clients will have a positive or negative impact, respectively, on our results of operations. A multitude of macroeconomic pressures, such as inflation and rising interest rates, impact our clients' hiring practices to varying degrees and, in turn, impact our revenues. Generally, we expect that changes in certain factors affecting our performance will correlate with improvement or deterioration in the labor market. For example, the performance of our pre-employment services offerings is sensitive to changes in hiring trends and we believe it will reflect the current slowdown in hiring among U.S. employers.

We collect funds from clients in advance of either the applicable due date for payroll tax submissions or the applicable disbursement date for employee payment services. Those collections from clients are typically disbursed from one to 30 days after receipt, with some funds being held for up to 120 days. We typically invest funds held for clients in money market funds, demand deposit accounts, U.S. treasury securities, certificates of deposit and commercial paper until they are paid to the applicable tax or regulatory agencies or to client employees. As we introduce new applications, expand our client base and renew and expand relationships with existing clients, we expect our average funds held for clients balance and, accordingly, interest earned on funds held for clients, will increase; however, the amount of interest we earn can be positively or negatively impacted by changes in interest rates.

Growing our business has resulted in, and will continue to result in, substantial investments in sales professionals, operating expenses, system development and programming costs and general and administrative expenses, which have increased and will continue to increase our expenses. Specifically, our revenue growth and geographic expansion drive increases in our employee headcount, which in turn precipitates increases in (i) salaries and benefits, (ii) stock-based compensation expense and (iii) facility costs related to the expansion of our corporate headquarters and operations facilities and additional sales office leases. Furthermore, execution of our international expansion strategy requires

considerable investment. As a result, we have experienced and expect to continue to experience pressure on our margins as we hire to support growth.

We believe the challenges of managing the ever-changing complexity of payroll and human resources will continue to drive companies to turn to outsourced providers for help with their HCM needs. The HCM industry historically has been driven, in part, by legislation and regulatory action, including COBRA, changes to the minimum wage laws or overtime rules, and legislation from federal, state or municipal taxation authorities. The market for HCM software is highly competitive, rapidly evolving and fragmented, and we expect competition to continue to intensify as new market entrants emerge and increasingly aggressive pricing strategies persist.

Our revenues are seasonal in nature and generally nature. Generally, we expect our first and fourth quarter recurring revenues to be higher than other quarters during the year. Recurring revenues include revenues relating to the annual processing of year because payroll tax filing forms and Affordable Care Act form filing requirements forms are typically processed in the first quarter and revenues from processing unscheduled payroll runs (such as bonuses) for our clients. As payroll tax forms clients are typically processed in the first quarter of the year, first quarter recurring revenues and margins are positively impacted. In addition, unscheduled payroll runs at the end of the year often result in increased recurring revenues concentrated in the fourth quarter. These In addition, these seasonal fluctuations in recurring revenues can also have an impact on gross profits. Historical results impacted by these seasonal trends should not be considered a reliable indicator of our future results of operations. operating income.

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For the three months ended September 30, 2023 and 2022, our total gross margins were approximately 83% and 84%, respectively. For the nine months ended September 30, 2023 and 2022, our total gross margins were approximately 84% and 85%, respectively. Although our gross margins may fluctuate from quarter to quarter due to seasonality and hiring trends, we expect that our gross margins will remain relatively consistent in future periods.

Results of Operations

The following table sets forth certain consolidated statements of comprehensive income data and such data as a percentage of total revenues for the periods presented:

Three Months Ended September 30,	Nine Months Ended September 30,	Three Months Ended March 31,
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	2023					2024					2023		% Change
	2023	2022	e	2023	2022	e	2024	2023	e	2024	2023	2023	% Change
Revenues													
Recurring	1,397,811	1,292,781	9.1%	1,444,421	1,444,421	9.84%	1,491,896	1,444,421	9.84%	1,491,896	1,444,421	9.84%	10.7%
Implementation and other	7,985	7,216	1.6%	7,985	7,216	1.6%	7,985	7,216	1.6%	7,985	7,216	1.6%	10.7%
Total revenue	1,405,800	1,299,000	10.0%	1,451,637	1,451,637	100.0%	1,499,881	1,451,637	100.0%	1,499,881	1,451,637	100.0%	10.7%
Cost of revenues													

		1		1									
Operating expenses	5,600	4,300	6,900	4,000	2,500	2,000	1,500	1,300	1,200	1,300	1,200	1,300	1,600
Depreciation and amortization	1,333	1,000	1,280	1,300	2,000	1,800	1,200	1,200	1,100	1,200	1,200	1,200	1,200
Total costs	6,933	5,300	8,180	5,300	3,500	3,800	2,700	2,700	2,200	3,500	2,800	3,500	2,800
Administrative expenses	1,444	1,000	1,600	1,000	1,100	1,000	1,500	1,000	1,000	1,000	1,000	1,000	1,000
Sales and marketing	2,166	1,400	1,700	1,000	1,100	1,400	1,200	1,400	1,200	1,500	1,400	1,500	1,400
Total	11,524	7,800	11,500	7,000	5,700	6,300	4,400	4,400	3,900	6,500	4,900	6,500	4,900

Total operating expenses	3,299,400	2,912,056	64.4%	-26.5%
Operating income	2,858,142	1,604,322	35.6%	78.2%
Interest expense	(2,000)	(500)		
Interest expense	(2,126)	(888)	20.7%	-6.6%
Interest expense	(2,126)	(888)	20.7%	-6.6%

Other		1	1		3								
inco	5	2	6	7		4		0					
me	,	,	2	,		,		5					
(expe	3	1	0	0	.	5	1	3	0	.			
nse),	6	.	4	.	7	4	.	3	.	2			
net	2	4%	1	6%	%	9	3%	1	4%	%			
	—	—	—	—	—	—	—	—	—	—	5,009	1.0 %	6,004
Inco	1					3		2					
me	0		7			6		7					
befor	2		5		3	0		5		3			
e	,	2	,	2	5	,	2	,	2	0			
inco	0	5	2	2	.	4	8	5	7	.			
me	4	.	8	.	5	8	.	8	.	8			
taxes	1	1%	8	5%	%	7	6%	9	4%	%			
	—	—	—	—	—	—	—	—	—	—	290,041	58.0 %	165,599
Provi	2		2			0		7					
sion	6		3		1	1		4		3			
for	,	,			5	,		,		6			
inco	8	6	1	6	.	4	8	1	7	.			
me	2	.	3	.	9	5	.	5	.	8			
taxes	2	6%	5	9%	%	6	0%	1	3%	%			
	—	—	—	—	—	—	—	—	—	—	42,854	8.6 %	46,303
	7		5			5		0					
	5		2		4	9		1		2			
	,	1	,	1	4	,	2	,	2	8			
Net	2	8	1	5	.	0	0	4	0	.			
inco	1	.	5	.	2	3	.	3	.	6			
me	\$9	5%	\$3	6%	%	\$1	6%	\$8	1%	%			
	—	—	—	—	—	—	—	—	—	—	\$ 247,187	49.4 %	\$ 119,296
	—	—	—	—	—	—	—	—	—	—			
	—	—	—	—	—	—	—	—	—	—	26.4 %		107.2%

Revenues

The increase in total recurring revenues for the three and nine months ended September 30, 2023 March, 31 2024 compared to the same periods period in 2022 2023 was primarily the result of the addition of new clients in our target market range, increased revenue per client, and productivity and efficiency gains the realization of pricing strategies. We believe that a decrease in mature sales offices, which are offices that have been open for at least 24 months, and the sale of additional applications to our existing clients. In addition, clients, as well as the performance continuing impact of our tax forms filing business Beti-driven reductions in billable corrections and unscheduled payroll runs, adversely affected the first quarter contributed to magnitude of the period-over-period increase in total revenues for the nine months ended September 30, 2023 as compared to the same period in 2022. Because we charge our clients on a per-employee basis for certain

services we provide, the drivers of revenue for the three and nine months ended September 30, 2023 described above were impacted by the headcount fluctuations within our client base. Additionally, rising revenues. Increased interest rates and a higher average funds held for clients balance during the three and nine months ended **September 30, 2023** March 31, 2024 as compared to the same periods period in 2022, 2023, resulted in increased interest earned on funds held for clients, which had a positive impact on recurring revenue.

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The average daily balance of funds held for clients was \$2.6 billion and \$2.4 billion for the three months ended March 31, 2024 and 2023, respectively.

The increase in implementation and other revenues for the three and nine months ended **September 30, 2023** March 31, 2024 from the same periods period in 2022, 2023 was primarily the result of the increased non-refundable upfront conversion fees collected from the addition of new clients. These fees are deferred and recognized ratably over the ten-year 10-year estimated life of our clients.

Expenses

Cost of Revenues

During the three months ended **September 30, 2023** March 31, 2024, operating expenses increased from the comparable prior year period by \$11.4 million \$10.6 million, primarily due to a \$9.8 million \$8.0 million increase in employee-related expenses attributable to growth in the number of operating personnel, a \$0.7 million \$1.4 million increase in automated clearing house fees related to increased revenues and a \$0.4 million \$0.9 million increase in shipping and supplies fees. Depreciation and amortization expense increased \$2.4 million \$2.8 million from the comparable prior year period, primarily due to the development of additional technology and purchases of other fixed assets.

During the nine months ended September 30, 2023, operating expenses increased from the comparable prior year period by \$41.0 million, primarily due to a \$35.3 million increase in employee-related expenses attributable to growth in the number of operating personnel, a \$3.0 million increase in shipping and supplies fees and a \$1.4 million increase in automated clearing house fees related to increased revenues. Depreciation and amortization expense increased \$6.9 million from the comparable prior year period, primarily due to the development of additional technology and purchases of other fixed assets.

Administrative Expenses

Sales and Marketing

During the three months ended **September 30, 2023** March 31, 2024, sales and marketing expenses increased from the comparable prior year period by \$10.0 million \$12.0 million due to a \$13.7 million increase in employee-related expenses, including commissions and bonuses, which were partially offset by a \$3.7 million decrease in marketing and advertising expense primarily attributable to the timing of specific projects.

During the nine months ended September 30, 2023, sales and marketing expenses increased from the comparable prior year period by \$57.3 million due to a \$47.6 million \$8.8 million increase in employee-related expenses, including

commissions and bonuses, and a **\$9.7 million** **\$3.2 million** increase in marketing and advertising expense attributable to increased spending across **most** **many** components of our marketing program.

Research and Development

During the three **and nine** months ended **September 30, 2023** **March 31, 2024**, research and development expenses increased from the comparable prior year **periods** **period** due to increases in employee-related expenses of **\$11.5 million** and **\$34.9 million**, respectively. **\$7.8 million**.

As we continue the ongoing development of our platform and product offerings, we generally expect research and development expenses (exclusive of stock-based compensation) to continue to increase, particularly as we hire more personnel to support our growth. While we expect this trend to continue on an absolute dollar basis and as a percentage of total revenues, we also anticipate the rate of increase to decline over time as we leverage our growth and realize additional economies of scale. As is customary for our business, we also expect fluctuations in research and development expense as a percentage of revenue on a quarter-to-quarter basis due to seasonal revenue trends, the introduction of new products, the amount and timing of research and development costs that may be capitalized and the timing of onboarding new hires and restricted stock vesting events.

Expenditures for software developed or obtained for internal use are capitalized and amortized over a three-year period on a straight-line basis. The nature of the development projects underway during a particular period, such as our **recently announced** **international expansion**, directly impacts the timing and extent of these capitalized expenditures and can affect the amount of research and development expenses in such period. The table below sets forth the amounts of capitalized and expensed research and development costs for the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **2022**: **2023**:

	Three Months Ended September						Nine Months Ended September 30,			
	30,				% Change	2023		2022		% Change
	2023	2022								
Capitalized portion of research and development	\$ 26,578	\$ 16,995			56%	\$ 70,809	\$ 48,835			45%
Expensed portion of research and development	51,864	40,366			28%	143,651	108,774			32%
Total research and development costs	\$ 78,442	\$ 57,361			37%	\$ 214,460	\$ 157,609			36%

	Three Months Ended March 31,		
	2024	2023	% Change
Capitalized portion of research and development	\$ 29,846	\$ 21,353	40%
Expensed portion of research and development	50,509	42,669	18%
Total research and development costs	<u>\$ 80,355</u>	<u>\$ 64,022</u>	26%

General and Administrative

During the three months ended September 30, 2023 March 31, 2024, general and administrative expenses increased \$11.1 million from the comparable prior year period due to an increase in employee-related expenses.

During the nine months ended September 30, 2023, general and administrative expenses increased \$34.3 million decreased \$113.7 million from the comparable prior year period due to a \$30.0 million \$117.5 million reversal of previously recognized stock-based compensation expense related to the forfeiture of a restricted stock award (the "2020 CEO Performance Award") upon Chad Richison's transition to Co-Chief Executive Officer, which was partially offset by a \$3.0 million increase in other employee-related expenses and a \$4.3 million \$0.8 million increase in accounting and legal expenses. See Note 11 for additional information.

Non-Cash Stock-Based Compensation Expense

The following table presents the non-cash stock-based compensation expense that is included within the specified line items in our consolidated statements of comprehensive income:

						Three Months Ended March 31,		
						2024	2023	% Change
				2024	2023			
Three	Nine	Months	Months					
Months	Months	Ended	Ended					
Ended	Ended							
September	September							
30,	30,							
		%	%					
		C	C					
		h	h					
		a	a					
		n	n					
		g	g					
2023	2022	e	2023	2022	e	2024	2023	% Change

Depreciation and Amortization

During the three and nine months ended September 30, 2023 March 31, 2024, depreciation and amortization expense increased from the comparable prior year periods period primarily due to the development of additional technology and purchases of other related fixed assets.

Interest Expense

The decrease in interest expense for the three months ended **September 30, 2023** **March 31, 2024**, as compared to the prior year period, was primarily **due** **attributed** to the **timing** **repayment** of our expansion project at our corporate

headquarters, which resulted in outstanding debt on November 21, 2023 and the cessation of fees associated with a higher capitalization rate of interest in 2023.

The increase in interest expense for the nine months ended September 30, 2023, as compared to the prior year period, term loan facility that was due to the timing of our entrance into the Credit Agreement (as defined below) terminated on July 29, 2022 July 8, 2023.

Other Income (Expense), net

The increases decrease in other income (expense), net for the three and nine months ended September 30, 2023 were March 31, 2024 was primarily due attributed to income interest earned on our corporate funds. For the three months ended March 31, 2024 and 2023, we earned interest on our corporate funds of \$6.5 million \$4.3 million and \$17.9 million \$5.2 million, respectively. For the three and nine months ended September 30, 2022, we earned income on our corporate funds of \$1.5 million and \$2.1 million, respectively. Additionally, as a result of the termination of the Term Loan Facility (as defined below), we incurred a loss on the extinguishment of debt of \$1.2 million in the three and nine months ended September 30, 2023, which consisted of the write-off of unamortized debt issuance costs. See Note 6 for additional information.

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Provision for Income Taxes

The provision for income taxes is based on a current estimate of the annual effective income tax rate adjusted to reflect the impact of discrete items. Our effective income tax rate was 28.1% 14.8% and 26.9% 28.0% for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The increase in lower effective tax rate for the nine three months ended September 30, 2023 March 31, 2024 was primarily attributable to the tax benefit related to a decrease the forfeiture of excess tax benefits from stock-based compensation. the 2020 CEO Performance Award in February 2024.

Liquidity and Capital Resources

Our principal sources of capital and liquidity are our operating cash flow and cash and cash equivalents. Our cash and cash equivalents consist primarily of demand deposit accounts and money market funds and certificates of deposit. Additionally, we maintain a \$1.0 billion senior secured revolving credit facility (the "Revolving Credit Facility"), which can be accessed as needed to supplement our operating cash flow and cash balances. As of September 30, 2023 March 31, 2024, we did not have \$29.0 million of any outstanding borrowings under the Revolving Credit Facility.

We have historically funded our operations from cash flows generated from operations, cash from the sale of equity securities and debt financing. Although we have funded most of the costs for construction projects at our corporate

facilities from available cash, we have incurred indebtedness for a portion of these costs. We are funding our current building expansion projects from available cash. Further, to date, all cash dividends and purchases under our stock repurchase plans have been funded from available cash. We believe our existing cash and cash equivalents, cash generated from operations and available sources of liquidity will be sufficient to maintain operations, make necessary capital expenditures, pay dividends and opportunistically repurchase shares for at least the next 12 months. In addition, based on our strong profitability and continued growth, we expect to meet our longer-term liquidity needs with cash flows from operations and, as needed, financing arrangements.

Credit Agreement. On July 29, 2022, we entered into a new credit agreement (the (as amended from time to time, the "Credit Agreement") with JPMorgan Chase Bank, N.A., as a lender, swingline lender and issuing bank, the lenders from time to time party thereto (collectively with JPMorgan Chase Bank, N.A., the "Lenders"), and JPMorgan Chase Bank, N.A., as the administrative agent. The Credit Agreement initially provided for the Revolving Credit Facility in the aggregate principal amount of up to \$650.0 million, and the ability to request an incremental facility of up to an additional \$500.0 million, subject to obtaining additional lender commitments and certain approvals and satisfying certain other conditions. The Credit Agreement includes a \$25.0 million sublimit for swingline loans and a \$6.5 million sublimit for letters of credit. The Credit Agreement also initially provided for a \$750.0 million senior secured delayed draw term loan facility (the "Term Loan Facility"). As discussed below, the Term Loan Facility was terminated on July 28, 2023 \$1.0 billion. All loans under the Credit Agreement will mature on July 29, 2027 (the "Scheduled Maturity Date").

The borrowings under Subject to certain conditions set forth in the Credit Agreement, bear interest we may borrow, prepay and reborrow under the Revolving Credit Facility and terminate or reduce the Lenders' commitments at a rate per annum equal to (i) the Alternate Base Rate ("ABR") plus an applicable margin ("ABR Loans") or (ii) (x) the term Secured Overnight Financing Rate ("SOFR") plus 0.10% (the "Adjusted Term SOFR Rate") or (y) the daily SOFR plus 0.10%, in each case plus an applicable margin ("SOFR Rate Loans"). ABR is calculated as the highest of (i) the rate of interest last quoted by The Wall Street Journal in the United States as the prime rate in effect, (ii) the federal funds rate plus 0.5% and (iii) the Adjusted Term SOFR Rate for a one-month interest period plus 1.00%; provided that, if the ABR as determined pursuant any time prior to the foregoing would be less than 1.00%, such rate shall be deemed to be 1.00%. The applicable margin for ABR Loans is (i) 0.25% if the Company's consolidated leverage ratio is less than 1.0 to 1.0; (ii) 0.50% if the Company's consolidated leverage ratio is greater than or equal to 1.0 to 1.0 but less than 2.0 to 1.0; (iii) 0.75% if the Company's consolidated leverage ratio is greater than or equal to 2.0 to 1.0 but less than 3.0 to 1.0; or (iv) 1.00% if the Company's consolidated leverage ratio is greater than or equal to 3.0 to 1.0. The applicable margin for SOFR Rate Loans is (i) 1.25% if the Company's consolidated leverage ratio is less than 1.0 to 1.0; (ii) 1.5% if the Company's consolidated leverage ratio is greater than or equal to 1.0 to 1.0 but less than 2.0 to 1.0; (iii) 1.75% if the Company's consolidated leverage ratio is greater than or equal to 2.0 to 1.0 but less than 3.0 to 1.0; or (iv) 2.00% if the Company's consolidated leverage ratio is greater than or equal to 3.0 to 1.0. Scheduled Maturity Date.

We are required to pay a quarterly commitment fee on the daily amount of the undrawn portion of the revolving commitments under the Revolving Credit Facility and, prior to its termination, a quarterly ticking fee on the daily amount of the undrawn portion of the Term Loan Facility, in each case at a rate per annum of (i) 0.20% if the Company's consolidated leverage ratio is less than 1.0 to 1.0; (ii) 0.225% if the Company's consolidated leverage ratio is greater than or equal to 1.0 to 1.0 but less than 2.0 to 1.0; (iii) 0.25% if the Company's consolidated leverage ratio is greater than or equal to 2.0 to 1.0 but less than 3.0 to 1.0; or (iv) 0.275% if the Company's consolidated leverage ratio is greater than or equal to 3.0 to 1.0. We are also required to pay customary letter of credit fees upon drawing any letter of credit.

Under the Credit Agreement, we are required to maintain as of the end of each fiscal quarter a consolidated interest coverage ratio of not less than 3.0 to 1.0 and a consolidated leverage ratio of not greater than 3.75 to 1.0, initially, stepping down to 3.25 to 1.0 as of December 31, 2024 and 3.0 to 1.0 at intervals as of December 31, 2025 and thereafter.

On July 29, 2022, we borrowed \$29.0 million under the Revolving Credit Facility to repay the outstanding indebtedness under our prior credit facility, along with accrued interest, expenses and fees. The loan bears interest at the Adjusted Term SOFR Rate for the interest period in effect plus 1.25%.

On July 28, 2023, we entered into an amendment to the Credit Agreement (the "Credit Agreement Amendment"), pursuant to which the aggregate revolving commitments thereunder were increased from \$650.0 million to \$1.0 billion, the Term Loan Facility was terminated and the Credit Agreement was amended in contemplation of the formation and future operating activities of Paycom Client Trust (the "Client Trust") and Paycom National Trust Bank, NA (the "Trust Bank"). We intend to form the Client Trust to hold client payroll and related funds and the Trust Bank to serve as trustee of the Client Trust. We did not make any draws under the Term Loan Facility prior to its termination.

Stock Repurchase Plan and Withholding Shares to Cover Taxes. In May 2016, our Board of Directors authorized a stock repurchase plan allowing for the repurchase of shares of our common stock in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b5-1 programs. Since the initial authorization of the stock repurchase plan, our Board of Directors has amended and extended and authorized new stock repurchase plans from time to time. Most recently, in August 2022, our Board of Directors authorized the repurchase of up to \$1.1 billion of our common stock. As of September 30, 2023 March 31, 2024, there was \$1.0 billion \$796.0 million available for repurchases under our stock repurchase plan. Our stock repurchase plan may be suspended or discontinued at any time. The actual timing, number and value of shares repurchased depends on a number of factors, including the market price of our common stock, general market and economic

conditions, shares withheld for taxes associated with the vesting of equity incentive awards and other corporate considerations. The current stock repurchase plan will expire on August 15, 2024.

During the nine three months ended September 30, 2023 March 31, 2024, we repurchased an aggregate of 303,401 15,681 shares of our common stock at an average cost of \$288.77 \$194.62 per share, including 43,891 all of which were shares withheld to satisfy tax withholding obligations for certain employees upon the vesting of equity incentive awards. Our payment of the taxes on behalf of those employees resulted in an aggregate cash expenditure of \$12.6

million \$3.1 million and, as such, we generally subtract the amounts attributable to such withheld shares from the aggregate amount available for future purchases under our stock repurchase plan.

Dividends on Common Stock. In May 2023, our Board of Directors adopted a dividend policy under which we intend to pay quarterly cash dividends on our common stock.

The following table summarizes dividend activity during 2023, 2024.

Declaration Date	Record Date	Payment Date	Per Share Dividend	Total Cash Dividends Paid ⁽¹⁾
October 30, 2023	November 27, 2023	December 11, 2023	\$ 0.375	\$ —(2)
July 31, 2023	August 28, 2023	September 11, 2023	0.375	21,636
May 15, 2023	May 30, 2023	June 12, 2023	0.375	21,731

Declaration Date	Record Date	Payment Date	Per Share Dividend	Total Cash Dividends Paid (in thousands) ⁽¹⁾
February 5, 2024	March 4, 2024	March 18, 2024	\$ 0.375	\$ 21,209

(1) All unvested equity incentive awards currently outstanding are entitled to receive dividends or dividend equivalents provided that such dividends or dividend equivalents are withheld by the Company and distributed to the applicable holder upon vesting of the award. Dividends declared, as reported in the consolidated statements of stockholders' equity, includes dividends and dividend equivalents payable to holders of unvested equity incentive awards and, as a result, exceeds the amount of total cash dividends paid presented in this column.

(2) The total On April 29, 2024, our Board of Directors declared a quarterly cash dividend of \$0.375 per share of common stock payable on June 10, 2024 to be paid stockholders of record at the close of business on December 11, 2023 will be determined based on the number of shares outstanding as of November 27, 2023 May 28, 2024.

The declaration, timing and amount of each quarterly cash dividend are subject to the approval of the Board of Directors, including a determination that the dividend policy and the declaration of dividends thereunder are in the best interests of our stockholders and are in compliance with applicable law. The Board of Directors retains the power to modify, suspend, or cancel the dividend policy in any manner and at any time that it may deem necessary or appropriate.

Cash Flow Analysis

Our cash flows from operating activities have historically been significantly impacted by profitability, implementation revenues received but deferred, our investment in sales and marketing to drive growth, and research and development. Our ability to meet future liquidity needs will be driven by our operating performance and the extent of continued investment in our operations. Failure to generate sufficient revenues and related cash flows could have a material adverse effect on our ability to meet our liquidity needs and achieve our business objectives.

As our business grows, we expect our capital expenditures related to research and our investment activity development and other strategic expansion activities to continue to increase. For example, we estimate that the total cost of the Since our current campus expansion project at our corporate headquarters is nearing completion and is expected to be placed into service in the second quarter of 2024, we anticipate that our construction related capital expenditures in the second half of 2024 will be between \$70 million and \$75 million. Capital expenditures related to this expansion began less than those incurred during the comparable period in the fourth quarter prior year. Depending on certain growth opportunities, we may choose to accelerate investments in sales and marketing, acquisitions, technology and services. Actual future capital requirements will depend on many factors, including our future revenues, cash from operating activities and the level of 2021 and we expect construction to be completed expenditures in the first quarter all areas of 2024. our business. In addition, we purchased the naming rights to the downtown Oklahoma City arena that is home to the Oklahoma City Thunder National Basketball Association franchise. Under the terms of the naming rights agreement, we committed to make payments escalating annually from \$4.0 million in 2021 to \$6.1 million in 2035. The payments are due in the fourth quarter of each year. Upon the conclusion of the initial term, the agreement may be extended upon the mutual agreement of both parties for an additional five-year period. Depending on certain growth opportunities, we may choose to accelerate investments in sales and marketing, acquisitions, technology and services. Actual future capital requirements will depend on many factors, including our future revenues, cash from operating activities and the level of expenditures in all areas of our business.

As part of our payroll and payroll tax filing services, we collect funds from our clients for federal, state and local employment taxes, which we remit to the appropriate tax agencies. We typically invest these funds in money market funds, demand deposit accounts, certificates of deposit, commercial paper and U.S. treasury securities from which we earn interest income during the period between their receipt and disbursement. disbursement of such funds.

Our cash flows from investing and financing activities are influenced by the amount of funds held for clients, which can vary significantly from quarter to quarter. The balance of the funds we hold depends on our clients' payroll calendars, and therefore such balance changes from period to period in accordance with the timing of each payroll cycle.

Our cash flows from financing activities are also affected by the extent to which we use available cash to purchase shares of common stock under our stock repurchase plan as well as equity incentive award vesting events that result in net share settlements and

the Company paying withholding taxes on behalf of certain employees. Additionally, we intend to continue to pay a quarterly cash dividend, subject to the discretion of the Board of Directors.

The following table summarizes the consolidated statements of cash flows for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**: **2023**:

	Nine Months Ended			Three Months Ended March 31,		
	September 30,		%	2024		2023
	2023	2022		2024	2023	
Net cash provided by (used in):						
Operating activities	\$ 69	\$ 47	48%	\$ 148,636	\$ 146,103	2%
Investing activities	(135,	(32,02	324	42,285	(40,618)	-204%
Financing activities	642)	8)	%	376,094	183,003	106%
Change in cash, cash equivalents, restricted cash and restricted cash equivalents	<u>\$ 766)</u>	<u>\$ 5,748</u>	<u>6%</u>	<u>\$ 567,015</u>	<u>\$ 288,488</u>	<u>97%</u>

Operating Activities

Cash provided by operating activities for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** primarily consisted of payments received from our clients and interest earned on funds held for clients. Cash used in operating activities primarily consisted of personnel-related expenditures to support the growth and infrastructure of our business. These payments included costs of operations, advertising and other sales and marketing efforts, IT infrastructure development, product research and development and security and administrative costs. Compared to the **nine** **three** months ended **September 30, 2022** **March 31, 2023**, our operating cash flows for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** were positively impacted by the growth of our business.

Investing Activities

Cash flows used in provided by investing activities for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** increased from the comparable prior year period due to a **\$303.7 million decrease** **\$65.0 million increase** in proceeds from investments from funds held for clients and a **\$43.7 million increase in purchases of property and equipment**, which

were partially offset by a \$243.7 million \$25.0 million decrease in purchases of investments from funds held for clients, and which were partially offset by a \$0.1 million \$7.1 million increase in proceeds from the sale purchases of property and equipment.

Financing Activities

Cash used in provided by financing activities for the nine three months ended September 30, 2023 March 31, 2024 increased from the comparable prior year period primarily due to the impact of a \$213.6 million \$216.7 million change related to the client funds obligation, which is due to the timing of receipts from our clients and payments made to our clients' employees and applicable taxing authorities on their behalf, behalf. The increase in cash flows provided by financing activities was partially offset by the payment of \$43.4 million \$21.2 million in cash dividends a decrease in proceeds from the issuance of debt of \$29.0 million and a \$7.6 million \$2.4 million increase in withholding taxes paid related to net share settlements. The increase in cash flows used in financing activities was partially offset by a \$29.3 million decrease in payments of long-term debt, a \$19.7 million decrease in repurchases of common stock, and a \$5.8 million decrease in payment of debt issuance costs.

Contractual Obligations

Our principal commitments primarily consist of long-term debt, leases for office space and the naming rights agreement. Except as described above with respect to the Credit Agreement Amendment, there have been no material changes to our contractual obligations disclosed in the contractual obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K that was filed with the SEC on February 16, 2023. For additional information regarding our naming rights agreement, leases, long-term debt and our commitments and contingencies, see "Note 4. Goodwill and Intangible Assets, Net", "Note 5. Leases", "Note 6. Long-Term Debt, Net" and "Note 13. Commitments and Contingencies" in the Form 10-K and "Note 5. Goodwill and Intangible Assets, Net", "Note 6. Long-Term Debt", and "Note 13. 12. Commitments and Contingencies" in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Critical Accounting Policies and Estimates

Our consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted accounting principles in the United States of America ("U.S. GAAP"). The preparation of these consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions to ensure that management believes them to be reasonable under the then-current facts and circumstances. Actual amounts and results may materially differ from these estimates made by management under different assumptions and conditions.

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Certain accounting policies that require significant management estimates, and are deemed critical to our results of operations or financial position, are discussed in the critical accounting policies and estimates section of Management's

Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K. There have been no material changes to the critical accounting policies disclosed in the Form 10-K.

Adoption of Accounting Pronouncements

Discussion of our recently adopted accounting pronouncements can be found in Note 2 in this Form 10-Q.²⁷

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Non-GAAP Financial Measures

Management uses adjusted EBITDA and non-GAAP net income as supplemental measures to review and assess the performance of our core business operations and for planning purposes. We define (i) adjusted EBITDA as net income plus interest expense, taxes, depreciation and amortization, non-cash stock-based compensation expense, certain transaction expenses that are not core to our operations (if any), **the change in fair value of our interest rate swap** and any loss on the extinguishment of debt and (ii) non-GAAP net income as net income plus non-cash stock-based compensation expense, certain transaction expenses that are not core to our operations (if any), **the change in fair value of our interest rate swap** and any loss on the extinguishment of debt, all of which are adjusted for the effect of income taxes. Adjusted EBITDA and non-GAAP net income are metrics that provide investors with greater transparency to the information used by management in its financial and operational decision-making. We believe these metrics are useful to investors because they facilitate comparisons of our core business operations across periods on a consistent basis, as well as comparisons with the results of peer companies, many of which use similar non-GAAP financial measures to supplement results under U.S. GAAP. In addition, adjusted EBITDA is a measure that provides useful information to management about the amount of cash available for reinvestment in our business, **paying dividends**, repurchasing common stock and other purposes.

Management believes that the non-GAAP measures presented in this Form 10-Q, when viewed in combination with our results prepared in accordance with U.S. GAAP, provide a more complete understanding of the factors and trends affecting our business and performance.

Adjusted EBITDA and non-GAAP net income are not measures of financial performance under U.S. GAAP, and should not be considered a substitute for net income, which we consider to be the most directly comparable U.S. GAAP measure. Adjusted EBITDA and non-GAAP net income have limitations as analytical tools, and when assessing our operating performance, you should not consider adjusted EBITDA or non-GAAP net income in isolation, or as a substitute for net income or other consolidated statements of comprehensive income data prepared in accordance with U.S. GAAP. Adjusted EBITDA and non-GAAP net income may not be comparable to similarly titled measures of other companies and other companies may not calculate such measures in the same manner as we do.

The following tables reconcile net income to adjusted EBITDA, net income to non-GAAP net income and earnings per share to non-GAAP net income per share on a basic and diluted basis:

	Three Months		Nine Months					
	Ended September		Ended September					
	30,		30,					
	2023	2022	2023	2022	2024	Three Months Ended March 31,		2023
Net income to adjusted EBITDA:								
Net income	75,2	52,1	259,	201,	\$	247,187	\$	119,296
Interest expense		1,01	1,66	1,58		782		837
Provision for income taxes	222	8	1	7				
Depreciation and amortization	26,8	23,1	101,	74,1		42,854		46,303
	22	35	456	51				
	28,9	23,5	82,9	67,7		32,468		26,272
	49	60	59	83				
EBITDA	131,	99,8	445,	344,		323,291		192,708
Non-cash stock-based compensation expense	212	66	107	959				
	33,1	24,4	96,3	70,8				
	98	92	83	15		(93,790)		27,819
Loss on extinguishment of debt	1,22		1,22					
	2	—	2	—				
Change in fair value of interest rate swap		1,66						
	—	8	—	—				
	165,	126,	542,	415,				
Adjusted EBITDA	\$ 632	\$ 026	\$ 712	\$ 774	\$	229,501	\$	220,527
Net income to non-GAAP net income:								
Net income					\$	247,187	\$	119,296
Non-cash stock-based compensation expense						(93,790)		27,819
Income tax effect on non-GAAP adjustments						(6,749)		(4,464)
Non-GAAP net income					\$	146,648	\$	142,651

Weighted average shares outstanding:

Basic		56,546	57,867
Diluted		56,552	57,991
Earnings per share, basic	\$	4.37	\$ 2.06
Earnings per share, diluted	\$	4.37	\$ 2.06
Non-GAAP net income per share, basic	\$	2.59	\$ 2.47
Non-GAAP net income per share, diluted	\$	2.59	\$ 2.46

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	Three Months Ended March 31,	
	2024	2023
Earnings per share to non-GAAP net income per share, basic:		
Earnings per share, basic	\$ 4.37	\$ 2.06
Non-cash stock-based compensation expense	(1.66)	0.48
Income tax effect on non-GAAP adjustments	(0.12)	(0.07)
Non-GAAP net income per share, basic	\$ 2.59	\$ 2.47

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income to non-GAAP net income:				
Net income	\$ 75,219	\$ 52,153	\$ 259,031	\$ 201,438
Non-cash stock-based compensation expense	33,198	24,492	96,383	70,815
Loss on extinguishment of debt	1,222	—	1,222	—
Change in fair value of interest rate swap	—	1,668	—	—
Income tax effect on non-GAAP adjustments	(7,263)	(4,882)	(17,347)	(15,180)
Non-GAAP net income	\$ 102,376	\$ 73,431	\$ 339,289	\$ 257,073

Weighted average shares outstanding:								
Basic		57,825		57,865		57,871		57,949
Diluted		57,966		58,033		58,056		58,193
Earnings per share, basic	\$	1.30	\$	0.90	\$	4.48	\$	3.48
Earnings per share, diluted	\$	1.30	\$	0.90	\$	4.46	\$	3.46
Non-GAAP net income per share, basic	\$	1.77	\$	1.27	\$	5.86	\$	4.44
Non-GAAP net income per share, diluted	\$	1.77	\$	1.27	\$	5.84	\$	4.42

	Three Months Ended March 31,	
	2024	2023
Earnings per share to non-GAAP net income per share, diluted:		
Earnings per share, diluted	\$ 4.37	\$ 2.06
Non-cash stock-based compensation expense	(1.66)	0.48
Income tax effect on non-GAAP adjustments	(0.12)	(0.08)
Non-GAAP net income per share, diluted	\$ 2.59	\$ 2.46

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Earnings per share to non-GAAP net income per share, basic:				
Earnings per share, basic	\$ 1.30	\$ 0.90	\$ 4.48	\$ 3.48
Non-cash stock-based compensation expense	0.57	0.42	1.67	1.22
Loss on extinguishment of debt	0.02	—	0.02	—
Change in fair value of interest rate swap	—	0.03	—	—
Income tax effect on non-GAAP adjustments	(0.12)	(0.08)	(0.31)	(0.26)

Non-GAAP net income per share, basic	\$ 1.77	\$ 1.27	\$ 5.86	\$ 4.44
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Earnings per share to non-GAAP net income per share, diluted:				
Earnings per share, diluted	\$ 1.30	\$ 0.90	\$ 4.46	\$ 3.46
Non-cash stock-based compensation expense	0.57	0.42	1.66	1.22
Loss on extinguishment of debt	0.02	—	0.02	—
Change in fair value of interest rate swap	—	0.03	—	—
Income tax effect on non-GAAP adjustments	(0.12)	(0.08)	(0.30)	(0.26)
Non-GAAP net income per share, diluted	\$ 1.77	\$ 1.27	\$ 5.84	\$ 4.42

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

As of September 30, 2023 March 31, 2024, we had corporate cash and cash equivalents totaling \$484.0 million \$371.3 million and funds held for clients cash and cash equivalents totaling \$1.7 billion \$2.6 billion. These amounts are invested primarily in demand deposit accounts and money market funds. We consider all highly liquid debt instruments purchased with an original maturity of three months or less and SEC-registered money market mutual funds to be cash equivalents. Additionally, we had available-for-sale securities totaling \$197.0 million \$109.5 million included within funds held for clients on the consolidated balance sheets as of September 30, 2023 March 31, 2024. Our available-for-sale securities consisted of U.S. treasury securities with an original maturity greater than one year and certificates of deposit. The primary objectives of our investing activities are capital preservation, meeting our liquidity needs and, with respect to investing client funds, generating interest income while maintaining the safety of principal. We do not enter into investments for trading or speculative purposes.

Our investments are subject to market risk due to changes in interest rates. The market value of fixed rate securities may be adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. We classify all debt securities as available-for-sale and, as a result, no gains or losses are recognized due to changes in interest rates until such securities are sold or decreases in fair value are determined to be nonrecoverable. To date, we have not recorded any credit impairment losses on our portfolio.

As of September 30, 2023 March 31, 2024, a hypothetical increase or decrease in interest rates of 100 basis points would result in an approximately \$22.0 million \$24.1 million increase or decrease, respectively, in interest earned on funds held for clients over the ensuing 12-month period. Interest earned on funds held for clients is included in recurring revenues

in the consolidated statements of comprehensive income. There are no incremental costs of revenue associated with changes in interest earned on funds held for clients.

An immediate increase in interest rates of 100 basis points would have resulted in a ~~\$2.0 million~~ \$0.2 million reduction in the aggregate market value of our fixed rate securities as of ~~September 30, 2023~~ March 31, 2024. An immediate decrease in interest rates of 100 basis points would have resulted in a ~~\$2.0 million~~ \$0.2 million increase in the aggregate market value of our fixed rate securities as of ~~September 30, 2023~~ March 31, 2024. These estimates are based on a sensitivity model that measures market value changes when changes in interest rates occur.

As of September 30, 2023, we had \$29.0 million of indebtedness outstanding under the Revolving Credit Facility. Our borrowings under the Revolving Credit Facility bear interest at the Adjusted Term SOFR Rate for the interest period in effect plus 1.25%, and as a result, we may be exposed to increased interest rate risk. As of September 30, 2023, a hypothetical 100 basis point change in the applicable reference rates would result in a less than \$1.0 million change in our interest expense over the ensuing 12-month period. Please refer to Note 6, "Debt" for additional information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our ~~chief executive officer~~ Co-Chief Executive Officers and ~~chief financial officer~~, our Chief Financial Officer, evaluated, as of ~~September 30, 2023~~ March 31, 2024, the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act. Based on that evaluation, our ~~chief executive officer~~ Co-Chief Executive Officers and ~~chief financial officer~~ our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of ~~September 30, 2023~~ March 31, 2024 to ensure that information required to be disclosed by us in this Form 10-Q is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to our management, including our ~~chief executive officer~~ Co-Chief Executive Officers and ~~chief financial officer~~, our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

We believe, however, that a controls system, no matter how well designed and operated, can only provide reasonable assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, within a company have been detected.

Changes in Internal Control over Financial Reporting

There have been no material changes in our internal control over financial reporting that occurred during the quarter ended ~~September 30, 2023~~ March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various disputes, claims, suits, investigations and legal proceedings arising in the ordinary course of business. "Item 3. Legal Proceedings" of the Form 10-K includes a discussion of legal proceedings. There have been no material changes from the information set forth in "Item 3. Legal Proceedings" of the Form 10-K. We believe that the resolution of current pending legal matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows. Nonetheless, we cannot predict the outcome of these proceedings, as legal matters are subject to inherent uncertainties, and there exists the possibility that the ultimate resolution of these matters could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

Except as set forth below, there have been no material changes from the information set forth in "Item 1A. Risk Factors" in the Form 10-K filed with the SEC on February 16, 2023 February 15, 2024.

If our security measures are breached, or unauthorized access to our clients' or their employees' or potential employees' sensitive data is otherwise obtained, our solution may not be perceived as being secure, clients may reduce the use of or stop using our solution, our ability to attract new clients may be harmed and we may incur significant liabilities.

Our solution involves the collection, storage and transmission of clients' and their employees' and potential employees' confidential and proprietary information, including personal identifying information, as well as financial and payroll data. HCM software is often targeted in cyber attacks, including computer viruses, worms, phishing attacks, malicious software programs and other information security breaches, which could result in unauthorized access to or release, gathering, monitoring, misuse, loss or destruction of our or our clients' sensitive data or otherwise disrupt our or our clients' business operations. If cybercriminals are able to circumvent our security measures, or if we are unable to detect an intrusion into our systems and contain such intrusion in a reasonable amount of time, our or our clients' sensitive data may be compromised. Further, certain of our employees have access to sensitive information about our clients' employees. While we conduct background checks of our employees and limit access to systems and data, it is possible that one or more of these individuals may circumvent these controls, resulting in a security breach.

In certain limited circumstances, we utilize relationships with third parties to aid in data management and transaction processing. Certain third parties with which we do business have been subject to cyber attacks, one of which resulted in unauthorized access to data of certain Company clients and their employees as well as Company data and employee records. These third parties may be sources of cybersecurity or other technological risks in the future, including operational

errors, system interruptions or breaches, unauthorized disclosure of confidential information and misuse of intellectual property.

Although we have security measures in place to protect client information and prevent data loss and other security breaches, these measures could be breached as a result of third-party action, employee error, third-party or employee malfeasance or otherwise. Globally, cybersecurity attacks are increasing in number and the attackers are increasingly organized and well financed, or at times supported by state actors. In addition, geopolitical tensions or conflicts, such as Russia's invasion of Ukraine or increasing tension with China, may create a heightened risk of cybersecurity attacks. Because the techniques used to obtain unauthorized access or to sabotage systems change frequently, we may not be able to anticipate these techniques and implement adequate preventative or protective measures. While we currently maintain a cyber liability insurance policy, cyber liability insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our cyber liability insurance policy may not cover all claims made against us, and defending a suit, regardless of its merit, could be costly and divert management's attention from our business and operations.

Any actual or perceived breach of our security could damage our reputation, cause existing clients to discontinue the use of our solution, prevent us from attracting new clients, or subject us to third-party lawsuits, regulatory fines or other actions or liabilities, any of which could adversely affect our business, operating results or financial condition.

As we continue to enhance our solution to serve clients located outside of the United States, our business will be subject to risks associated with international operations.

An element of our growth strategy is to expand our operations and client base. We have recently begun to expand our operations into markets outside of the United States. Doing business internationally involves a number of risks, including but not limited to:

- multiple, conflicting and changing laws and regulations such as privacy regulations, tax laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits, and licenses;
- failure to obtain and maintain regulatory approvals for the use of our products in various countries;

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- complexities and difficulties in obtaining protection and enforcing our intellectual property;
- difficulties in staffing and managing foreign operations;
- limits in our ability to penetrate international markets;
- financial risks, such as the impact of local and regional financial crises on demand for our products and exposure to foreign currency exchange rate fluctuations;
- natural disasters, political and economic instability, including wars, terrorism and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions;
- certain expenses including, among others, expenses for travel, translation and insurance; and
- regulatory and compliance risks that relate to maintaining accurate information and control over sales and activities that may fall within the purview of the U.S. Foreign Corrupt Practices Act, its books and records provisions or its anti-bribery and corruption provisions.

bribery provisions.

Our expansion into international markets requires significant resources and management attention and subjects us to regulatory, economic and political risks that differ from those in the United States. Because of our inexperience with international operations, we cannot ensure that our expansion into international markets will be successful, and the impact of such expansion may adversely affect our business, operating results or financial condition.

Our background check business is subject to significant governmental regulation, and changes in law or regulation, or a failure to correctly identify, interpret, comply with and reconcile the laws and regulations to which it is subject, could materially adversely affect our revenue or profitability.

We offer a background screening application called Enhanced Background Checks. In the course of providing background checks, we search and report public and non-public consumer information and records, including criminal records, employment and education history, credit history, driving records and drug screening results. Consequently, we are subject to extensive, evolving and often complex laws and governmental regulations, such as the Fair Credit Reporting Act (the "FCRA"), the Drivers' Privacy Protection Act, state consumer reporting agency laws, state licensing and registration requirements, and various other foreign, federal, state and local laws and regulations. These laws and regulations set forth restrictions and process requirements concerning what may be reported about an individual, when, to whom, and for what purposes, and how the subjects of background checks are to be treated. Compliance with these laws and regulations requires significant expense and resources, which could increase significantly as these laws and regulations evolve. Such increase in restrictions and compliance costs could negatively affect our ability to provide other services expected by our clients and adversely affect our offerings and revenue.

Changes in law, regulation, or administrative enforcement and interpretations or other limitations and prohibitions related to the provision of consumer information and records could materially adversely affect our revenue and profitability. For example, numerous state and local authorities have implemented "ban the box" and "fair chance" hiring laws that limit or prohibit employers from inquiring or using a candidate's criminal history to make employment decisions and many of these authorities have in recent years amended these laws to increase the restrictions on the use of such information. In addition, redaction of personal identifying information in criminal records (such as date of birth), and court rules or lawsuits that limit or restrict access to identifiers in criminal records, may negatively impact our ability to perform complete criminal background checks. The enactment of new restrictive legislation and the requirements, restrictions, and limitations imposed by changing interpretations and court decisions on such laws and regulations could prevent our customers from using the full functionality of our background screening application, which may reduce demand for such solution.

We could face liability from of our background check services and the information we report or fail to report in our background checks, which may not be covered or fully covered by insurance.

We face potential liability from individuals, classes of individuals, clients or regulatory bodies for claims based on the nature, content or accuracy of our background check services and the information we use and report. Our potential exposure to lawsuits or government investigations may increase depending in part on our clients' compliance with these laws and regulations and applicable employment laws in their procurement and use of our background checks as part of their hiring process, which is generally outside of our control. Our potential liability includes claims of non-compliance with

the FCRA, U.S. state consumer reporting agency laws or regulations, foreign regulations or applicable employment laws, as well as other claims of defamation, invasion of privacy, negligence, copyright, patent or trademark infringement. In some cases we may be subject to strict liability.

We also face potential liability from our clients, and possibly third parties, in the event we fail to report information, particularly criminal records or other potentially negative information, or wrongly report such information. From time to time, we have been subject to claims and lawsuits by current and potential employees of our clients, alleging that we provided to our clients inaccurate or improper information that negatively affected the clients' hiring decisions. Although the resolutions of these lawsuits have not had a

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material adverse effect on us to date, the costs of such claims, including settlement amounts or punitive damages, could be material in the future, could cause adverse publicity and reputational damage, could divert the attention of our management, could subject us to equitable remedies relating to the operation of our business and provision of services and result in significant legal expenses, all of which could have a material adverse effect on our business, financial condition and results of operations and adverse publicity, and could result in the loss of existing clients and make it difficult to attract new clients. Insurance may not be adequate to cover us for all risks to which we are exposed or may not be available to cover these claims at all. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of our insurance coverage, could have a material adverse effect on our business, financial condition or results of operations. Additionally, we cannot be certain that our insurance coverage, including any applicable deductibles, copays and other policy limits, will continue to be available to us at a reasonable cost or will be adequate to cover any claims or lawsuits we may face in the future or that we will be able to renew our insurance policies on favorable terms, or at all.

We may not continue to pay dividends or to pay dividends at the same rate as announced in May 2023.

Our payment of dividends, as well as the rate at which we pay dividends, are solely at the discretion of our Board of Directors. Further, dividend payments, if any, are subject to our financial results and the availability of statutory surplus. These factors could result in a change to our recently adopted dividend policy.

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

The number of shares of common stock repurchased by us during the three months ended **September 30, 2023** **March 31, 2024** is set forth below.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1 - 31, 2023	—	\$ —	—	\$ 1,088,565,000

August 1 - 31, 2023 ⁽²⁾	263,475	\$ 290.16	263,475	\$ 1,012,115,000
September 1 - 30, 2023 ⁽³⁾	349	\$ 277.92	349	\$ 1,012,018,000
Total	263,824		263,824	

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
			Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Plans or Programs ⁽¹⁾
January 1 - 31, 2024	—	\$ —	—	\$ 799,088,000
February 1 - 29, 2024 ⁽²⁾	15,466	\$ 194.76	15,466	\$ 796,076,000
March 1 - 31, 2024 ⁽²⁾	215	\$ 184.75	215	\$ 796,036,000
Total	15,681		15,681	

- (1) Pursuant to a stock repurchase plan announced on November 20, 2018, we were authorized to purchase (in the aggregate) up to \$150.0 million of our common stock in open market purchases, privately negotiated transactions by other means. On May 13, 2021, we announced that our Board of Directors increased the availability under the existing stock repurchase plan to \$300.0 million and extended the expiration date to May 13, 2023. On June 7, 2023, we announced that our Board of Directors increased the availability under the existing stock repurchase plan to \$550.0 million and extended the expiration date to June 7, 2024. On August 15, 2022, we announced that our Board of Directors increased the availability under the existing stock repurchase plan to \$1.1 billion and extended the expiration date to August 15, 2024.
- (2) Includes 3,965 shares withheld to satisfy tax withholding for certain employees upon the vesting of equity incentive awards.
- (3) Consists of shares withheld to satisfy tax withholding for certain employees upon the vesting of equity incentive awards.

Item 5. Other Information

Insider Rule 10b5-1 Trading Arrangements

On August 10, 2023 February 16, 2024, Chad Richison, President, Chief Co-Chief Executive Officer, President and Chairman of the Board of Directors, and an entity affiliated with Mr. Richison together adopted a Rule 10b5-1 trading arrangement (the "10b5-1" "Richison 10b5-1 Plan") that is intended to satisfy the affirmative defense of Rule 10b5-1(c) of the Exchange Act. The Richison 10b5-1 Plan provides for the sale of up to 250,000 487,500 shares of our common stock at specified market prices, commencing on behalf of Mr. Richison and up to 487,500 shares of common stock on behalf of the affiliated entity, in each case during the period beginning on the later of (i) November 8, 2023 May 17, 2024, and (ii) the second third trading day following disclosure of the Company's financial results on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024, and ending May 2, 2024 November 13, 2024, subject to earlier termination in accordance with the terms of the Richison 10b5-1 Plan and applicable laws, rules and regulations.

Item 6. Exhibits

The following exhibits are incorporated herein by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K):

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Paycom Software, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Amendment No. 1 to the Registration Statement on Form S-1/A dated March 31, 2014, filed with the SEC on March 31, 2014).
3.2	Amended and Restated Bylaws of Paycom Software, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated October 12, 2023 February 7, 2024, filed with the SEC on October 13, 2023 February 7, 2024).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 1 to the Registration Statement on Form S-1/A dated March 31, 2014, filed with the SEC on March 31, 2014).
10.1 10.1 +	Amendment No. 2 Form of Restricted Stock Unit Award Agreement – Performance-Based Vesting (incorporated by reference to Credit Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 7, 2024, filed with the SEC on February 7, 2024).
10.2+	Form of Stock Award Agreement (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated July 28, 2023 February 7, 2024, filed with the SEC on February 7, 2024).
10.3+	Letter Agreement, by and among Paycom Software, Inc., Paycom Payroll, LLC, certain other subsidiaries of between Paycom Software, Inc. as guarantors, JPMorgan Chase Bank, N.A. and Christopher G. Thomas, dated February 7, 2024 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated February 7, 2024, as a lender, swingline lender, filed with the SEC on February 7, 2024).

10.4+	Letter Agreement, by and issuing bank, between Paycom Software, Inc. and Chad Richison, dated February 7, 2024 (incorporated by reference to Exhibit 10.5 to the lenders party thereto, and JPMorgan Chase Bank, N.A. as Company's Current Report on Form 8-K dated February 7, 2024, filed with the administrative agent, SEC on February 7, 2024).
10.5+	Form of Restricted Stock Unit Award Agreement – Performance-Based Vesting (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 28, 2023 April 1, 2024, filed with the SEC on August 1, 2023 April 5, 2024).
10.6+	Letter Agreement, by and between Paycom Software, Inc. and Amy Walker, dated April 4, 2024 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 1, 2024, filed with the SEC on April 5, 2024).
10.7+	Independent Consultant and Services Agreement, by and between Paycom Payroll, LLC and Holly Faurot, dated April 4, 2024 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated April 1, 2024, filed with the SEC on April 5, 2024).
10.8+	Release and Award Cancellation and Acceleration Agreement, by and between Paycom Software, Inc. and Holly Faurot, dated April 4, 2024 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated April 1, 2024, filed with the SEC on April 5, 2024).
31.1*	Certification of the Chief Co-Chief Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Co-Chief Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3*	Certification of the Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Chief Co-Chief Executive Officers and Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbases Document.

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101.CAL **Inline XBRL Taxonomy Extension Calculation Linkbase Document.**

*

101.DEF **Inline XBRL Taxonomy Extension Definition Linkbase Document.**

*

101.LAB* **Inline XBRL Taxonomy Extension Label Linkbase Document.**

101.PRE **Inline XBRL Taxonomy Extension Presentation Linkbase Document.**

*

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

+ Management contract or compensatory plan or arrangement.

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* Filed herewith.

** The certifications attached as Exhibit 32.1 are not deemed “filed” with the SEC and are not to be incorporated by reference into any filing of Paycom Software, Inc. under the Securities Act whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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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.

PAYCOM SOFTWARE, INC.

Date: **November 2, 2023** **May 2, 2024**

By: /s/ Chad Richison

Chad Richison

President and **Chief** **Co-Chief** Executive Officer

(Principal Co-Principal Executive Officer)

Date: November 2, 2023 May 2, 2024

By: /s/ Christopher G. Thomas

Christopher G. Thomas

Co-Chief Executive Officer

(Co-Principal Executive Officer)

Date: May 2, 2024

By: /s/ Craig E. Boelte

Craig E. Boelte

Chief Financial Officer

(Principal Accounting Officer and Principal Financial Officer)

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Exhibit 31.1

CERTIFICATION OF CHIEF CO-CHIEF EXECUTIVE OFFICER

**PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES AND EXHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Chad Richison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paycom Software, Inc.;
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 material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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 consolid.

subsidiaries, is made known to us by others within those entities, particularly during the period in which this report being prepared;

- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting and

5. The registrant's other certifying officer(s) 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: **November 2, 2023** **May 2, 2024**

By

: /s/ Chad Richison

Chad Richison

Ch

ief **Co-Chief Executive Officer**

(Principal Co-Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICER

**PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES AND EXHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher G. Thomas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paycom Software, Inc.;
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 material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2024

By

: /s/ Christopher G. Thomas

Christopher G. Thomas

Co-Chief Executive Officer

(Co-Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

**PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES AND EXHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Craig E. Boelte, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paycom Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material 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 material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting and
5. The registrant's other certifying officer(s) 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: **November 2, 2023** **May 2, 2024**

By

: /s/ Craig E. Boelte

Craig E. Boelte

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the quarter ended **September 30, 2023** **March 31, 2024** (the "Form 10-Q") of Paycom Software, Inc. (the "Company"), the undersigned hereby certify in their capacities as Chief Executive Officer **Officers** and Chief Financial Officer, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

- (1) the Form 10-Q fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: **November 2, 2023** **May 2, 2024**

By

: /s/ Chad Richison

Chad Richison

Ch

ief **Co-Chief Executive Officer**

(**Principal** **Co-Principal** Executive Officer)

Date: **November 2, 2023** **May 2, 2024**

By

: /s/ Christopher G. Thomas

Christopher G. Thomas

Co-Chief Executive Officer

(Co-Principal Executive Officer)

Date: **May 2, 2024**

By

: /s/ Craig E. Boelte

Craig E. Boelte

Chief Financial Officer

(Principal Financial Officer)

The foregoing certifications are not deemed "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language contained in such filing.

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