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

Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2022

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

For the transition period from _______ to _______

Commission file number 001-40640

PAYCOR HCM, INC.

(Exact name of registrant as specified in its charter)

Delaware	**83-1813909**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4811 Montgomery Road **Cincinnati, OH**	**45212**
(Address of Principal Executive Offices)	*(Zip Code)*

(800) 381-0053

Registrant's telephone number, including area code

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

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

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	o
		Emerging growth company	x

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of December 31, 2021, the last day of registrant’s most recently completed second fiscal quarter, was $1.35 billion (based on the closing price for shares of the registrant’s common stock as reported by the NASDAQ Global Select Market on that date).

As of August 19, 2022, the number of shares of the Registrant’s Common Stock outstanding was 175,643,109 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement on Schedule 14A to be prepared in connection with its 2022 Annual Meeting of Stockholders to be held on October 26, 2022 are incorporated by reference in Part III of this Annual Report on Form 10-K. The registrant intends to file the definitive Proxy Statement with the Securities and Exchange Commission not later than 120 days following June 30, 2022.

Table of Contents

Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors,” contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, our objectives for future operations, and any statements of a general economic or industry specific nature, are forward-looking statements. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “can have,” “likely,” “outlook,” “potential,” “targets,” “contemplates,” or the negative or plural of these words and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe, based on information currently available to our management, may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, related to our operations, financial results, financial condition, business, prospects, growth strategy, and liquidity. Accordingly there are, or will be, important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to:

- Our ability to manage our growth effectively.
- The resulting effects of any potential breach of our security measures or any unauthorized access to our customers’ or their employees’ personal data, including by way of computer viruses, worms, phishing and ransomware attacks, malicious software programs, and other data security threats.
- The expansion and retention of our direct sales force with qualified and productive persons and the related effects on the growth of our business.
- The impact on customer expansion and retention if implementation, user experience, customer service, or performance relating to our solutions is not satisfactory.
- The timing of payments made to employees and taxing authorities relative to the timing of when a customer’s electronic funds transfers are settled to our account.
- Future acquisitions of other companies’ businesses, technologies, or customer portfolios.
- The continued service of our key executives.
- Our ability to innovate and deliver high-quality, technologically advanced products and services.
- Our ability to attract and retain qualified personnel, including software developers and skilled IT, sales, marketing, and operation personnel.
- The proper operation of our software.
- Our relationships with third parties.
- Damage, failure, or disruption of our Software-as-a-Service (“SaaS”) delivery model, data centers, or our third-party providers’ services.
- Our ability to protect our intellectual and proprietary rights.
- The use of open source software in our applications.
- The growth of the market for cloud-based human capital management and payroll software among small and medium- sized businesses (“SMBs”).
- The competitiveness of our market generally.
- The effects of inflation, supply chain disruptions, labor shortages and other ongoing macroeconomic impacts from the novel coronavirus pandemic (“COVID-19 pandemic”).
- The impact of an economic recession in the United States (“U.S.”) or global economy.
- Our customers’ dependence on our solutions to comply with applicable laws.
- Our ability to comply with anti-corruption, anti-bribery and similar laws.

- Changes in laws, regulations, or requirements applicable to our software and services.
- The impact of privacy, data protection, tax and other laws and regulations.
- Our ability to maintain effective internal controls over financial reporting.
- The other risk factors set forth under Item 1A. of Part I of this Annual Report on Form 10-K.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations and assumptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We undertake no obligation to publicly update any forward-looking statement after the date of this report, whether as a result of new information, future developments or otherwise, or to conform these statements to actual results or revised expectations, except as may be required by law.

Part I

Item 1. Business

Paycor HCM, Inc., a Delaware corporation ("Paycor HCM"), was incorporated in August 2018 to serve as a holding company in connection with the acquisition of the Company (the "Apax Acquisition") by Apax Partners L.P. ("Apax Partners") in 2018. Paycor HCM completed an initial public offering ("IPO") of its common stock in July 2021. Paycor HCM, Inc. and its subsidiaries are referred to collectively as the "Company," "Paycor HCM," "we," "us," or "our," unless the context requires otherwise.

Mission

Paycor empowers leaders to develop winning teams.

Overview

We are a leading Software-as-a-Service ("SaaS") provider of human capital management solutions for small and medium-sized businesses. Our unified, cloud-native platform is built to empower people leaders by producing actionable, real-time insights to drive workforce optimization. Our comprehensive suite of solutions enables organizations to streamline human capital management ("HCM") and payroll workflows and achieve regulatory compliance while serving as the single, secure system of record for all employee data. Our highly flexible, scalable, and extensible platform offers award-winning ease-of-use with an intuitive user experience and deep third-party integrations, and all augmented by industry-specific domain expertise. Over 29,000 customers across all 50 states trust us to help their leaders develop winning teams.

Since our founding in 1990 we have achieved several key milestones, including:

- 2004: Completed first business acquisition and developed web-based version of our software.
- 2006 – 2008: Expanded product offerings beyond payroll services, adding human resources and time and attendance functionalities.
- 2012: Launched new flagship SaaS platform, "Perform", which was built to provide ease-of-use and depth of functionality for SMBs.
- 2014: Released Perform Time and Onboarding solutions and surpassed $100 million in annual revenue.
- 2015: Completed the acquisition of Newton Software, adding applicant tracking software to the portfolio, and surpassed 1,000,000 employees on platform.
- 2017: Surpassed $200 million in annual revenue.
- 2018: Received majority investment from Apax Partners and launched research-based resource hub, HR Center of Excellence.
- 2019: Hired Raul Villar Jr. as CEO and acquired Nimble Scheduling Software.
- 2020: Surpassed $300 million in annual revenue, launched GUIDE Elite implementation, released Pulse surveys tool, and completed the acquisition of 7Geese talent management software.
- 2021: Consummated the IPO of Paycor HCM, Inc. and began trading publicly on the Nasdaq Global Select Market.
- 2022: Surpassed $400 million in annual revenue, released Expense Management providing people leaders with one location to easily review, reimburse, and report on employee expenses, and launched the Paycor Developer Portal making it simple for our customers to connect the power of their people data across their business through improved integrations.

People management has evolved significantly over the last 30 years from an administrative, payroll-centric cost center to a highly strategic function focused on talent management and employee engagement. To be competitive in today's environment, organizations are increasingly reliant on this function as they seek to leverage people analytics to identify trends and track performance across their workforce. However, most existing HCM solutions lack the comprehensive functionality, ease-of-use, and integration capabilities needed to facilitate effective people management. These limitations are particularly problematic for SMBs which often lack the technical, financial, and people resources of larger organizations.

Our unified, cloud-native platform is purpose-built for leaders and configured by industry with the tools they need to optimize all aspects of people management. See “Our Solution and Key Strengths” section below, within Item 1. Business, for what we believe are the key strengths of our platform.

Our easy-to-use platform incorporates intuitive analytics functionality, enabling SMBs to automate and simplify mission-critical people management processes and enhance visibility into their business operations. Our platform is architected for extensibility and features an open application programming interface (“API”) led interoperability engine that allows customers to easily connect their people data with third-party applications to create a seamlessly integrated digital ecosystem. Our products are supported by a differentiated implementation process and vibrant community of users, which together ensure customers can take full advantage of our platform.

We market and sell our solutions through direct sales teams, leveraging our strong demand generation engine and broker partnerships. We primarily target companies with 10 to 1,000 employees. We intend to grow our customer base by accelerating the expansion of our sales coverage and broker networks in both new and existing markets, with a focus on the 15 most populous metropolitan statistical areas in the United States (“Tier 1 markets”), which encompasses 33% of the U.S. population and where we see substantial opportunity. We also intend to grow our customer base through our industry focused product and go-to-market strategy. We market our products via a bundled pricing strategy where we charge customers on a per-employee-per-month (“PEPM”) basis and have demonstrated success at driving growth through the expansion of our Cor HCM and Payroll product bundle. We intend to continue to expand our product suite and further cross-sell products into our existing customer base.

Industry Background

Human capital management is an evolving necessity for organizations, with several key trends that have shaped today’s environment.

The Evolution of People Management

Over the last 30 years, the demands of people leaders and people management strategies have significantly evolved in response to shifting demographics, employee expectations, and technological capabilities. As a result, the importance of people management has been elevated from a payroll-centric cost center to a highly strategic function focused on talent management as a critical component of business competitiveness.

In the 1990s and early 2000s, HCM systems focused on moving paper-based Human Resources (“HR”) processes to software-based processes. The initial benefit was around the elimination of paper trails, but there was limited focus on modernizing the work. In the mid-to-late 2000s, the emergence of SaaS brought a focus on improving the old paper processes that had been converted to software. Numerous point solutions evolved to tackle each of the key HCM functions. This led to greater system fragmentation, an overcomplicated user experience, and increased costs. At the same time, the separation between work and life began to blur, driving an increased need for employee engagement tools. HCM became a strategic business function and the tools to support it are now mission critical for companies.

The COVID-19 pandemic further reinforced this strategic shift as the HR function proved vital to companies striving to maintain morale and productivity for both remote workforces and essential employees. Following on the heels of the pandemic, the “Great Resignation” forced companies to evolve their people management practice yet again, creating a need for employee engagement in every industry, including blue-collar fields. These evolving demands have accelerated the trend of modern HCM technology replacing manual processes and outdated systems with strategic platforms that surface business insights, enabling leaders to make data-driven decisions.

To address this lack of engagement, many HCM solution providers targeted their product development efforts at enhancing the employee experience. But the solutions were surface-level employee portals, similar to social media platforms, to drive engagement. Companies quickly found that their employees were not looking for another social platform, especially one provided by their employer. Other unsuccessful attempts to drive engagement included adding gamification attributes to influence behavior, such as encouraging employees to complete compliance training. These product features failed to address the top factor that impacts employee engagement, an employee’s leader.

One of the top drivers of employment engagement is driven by an employee's direct manager. Employers have long known employee engagement leads to higher productivity and decreased risk of attrition. Even so, a 2022 study conducted by Gallup revealed that only 32% of employees in the U.S. are engaged by their work. Given this, it is not surprising that a 2019 Gartner study showed employee engagement to be the need least met by existing HCM solutions. We believe the next evolution of HCM software will be empowering leaders with the tools to effectively strengthen engagement, manage career development, and enhance the employee experience in order to drive business results.

Complex Regulatory Environment

The ever-evolving regulatory landscape continues to place a burden on small businesses. For example, the 2020 Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") has required small businesses to quickly adapt to complex requirements. In addition, businesses are forced to navigate thousands of state and local tax codes and industry-specific labor laws. As a result, demand has increased for HCM platforms that enable them to maintain a robust compliance framework and abstract the complexity of regulatory changes, such as responding to special employee leave provisions.

Growing Importance of People Analytics

In recent years, businesses have begun to appreciate the value they could derive from stronger data analytics capabilities. SMB leaders are increasingly willing to invest in data-driven decision-making tools to improve their business performance. An IDC survey found that analyzing data and employee engagement had the highest level of third-party investment. In addition, a survey by Gartner showed that 64% of participants ranked improvement of reporting quality and people analytics as their main HR objective when evaluating HCM solutions. SMBs have a particular need for all-in-one solutions considering their unique capacity constraints, such as single person HR departments and limited in-house legal and information technology ("IT") support.

Unique Needs of SMBs

SMBs prefer solutions that have the following key characteristics:

- ***Ease of Implementation***. The ability to get mission critical solutions up and running seamlessly and successfully without overburdening company resources.
- ***Ease of Use***. Intuitive design and simple workflows for leaders and their teams.
- ***Full Suite of Solutions***. Fully integrated platform to serve as a single system of record for all HCM functions with built-in critical capabilities such as compliance, mobility, analytics, and security.
- ***Highly Scalable Cloud-based Platform***. Flexible solutions built to meet the needs of organizations as they grow in size and complexity.
- ***Industry-specific Focus***. Product, customer experience, and community tailored to unique industry needs.
- ***Interoperability.*** The ability to connect the power of people data across entire business through public APIs, events, and notifications.

Limitations of Existing Solutions

The vast majority of SMBs still rely on legacy solutions to fulfill their HCM technology requirements. These product offerings are typically provided by national and regional payroll service bureaus or in-house solutions built on top of generic enterprise resource planning ("ERP") systems. In addition to these legacy solutions, advancements in cloud technology have led to the emergence of other competing SaaS-based HCM offerings. Both legacy and other competing SaaS offerings possess significant limitations in addressing the full HCM needs of SMBs. These limitations include:

- ***Incomplete HCM Solutions Lacking in Product Breadth and Depth.*** Many existing HCM platforms offer incomplete product suites that deliver only a portion of the capabilities required by SMBs or offer *'full suites'* comprised of products with limited functionality, capable of addressing only the most basic use cases. Often these solutions rely on archaic technologies such as batch payroll processing engines and lack robust compliance and security features. Users of these incomplete platforms are often forced to use multiple products from multiple vendors or continue to manage processes manually outside of their HCM solution.

- ***Lack a Unified Approach.*** Many existing HCM *'suites'* are comprised of a patchwork of stand-alone applications with limited integration. This lack of unification inhibits the real-time synchronization of data across multiple HCM applications and makes it difficult for SMBs to maintain a single, uniform system of record for employee data. As a result, SMBs are forced to rely on manual, redundant, and error-prone processes to manage and track employee data, which can often lead to untimely payroll, poor employee engagement, and significant compliance issues such as incomplete reporting, and inadequate data security.
- ***Difficult to Integrate with Third-Party Systems.*** Most existing HCM solutions are built on inflexible, closed technology architectures, and are not designed to communicate with external applications. These rigid systems make it difficult for SMBs to integrate HCM tools with other key systems of record such as ERP and POS applications and often require significant manual work to extract and port data to execute routine functions. This inhibits organizations' ability to establish flexible digital ecosystems capable of addressing the evolving needs of a growing business.
- ***Lack Robust Analytics Capabilities.*** Many existing SMB solutions lack tools which are both sophisticated and easy-to-use to access, aggregate, analyze, and act on employee data in real-time. As a result, SMBs are unable to efficiently derive actionable workforce insights and make critical, informed decisions to improve the way they hire, manage, and develop people, such as uncovering turnover trends based on demographics, location, and tenure.
- ***'One Size Fits All' Approach.*** Certain industry verticals have unique people management requirements, such as job costing for manufacturing companies and blended overtime calculations for healthcare employees who work shifts at different pay rates. However, most existing HCM solutions provide generic out-of-the-box functionality and limited configurability, with professional service teams that often lack vertical expertise. As a result, SMBs struggle to address evolving industry-specific people management needs and reporting requirements with existing HCM solutions.
- ***Difficult to Use.*** Many existing solutions have arcane, inflexible user interfaces that lack the intuitive, consumer-like feel of modern SaaS applications. These solutions are often difficult for both employees and leaders to use effectively without significant training. Additionally, many existing HCM suites typically lack consistent functionality and user experience across different devices, and typically require multiple logins to traverse between applications. As a result, people leaders are often forced to revert to time-consuming manual processes to execute simple HR tasks and assist with tedious employee troubleshooting.
- ***Not Designed for People Leaders.*** Many existing HCM solutions were built with engagement functionality specifically designed for employees, not people leaders who have the most influence over employee engagement. These solutions often lack the end-to-end functionality and powerful analytics required by people leaders for effective people management. As a result, people leaders are incapable of fully leveraging their HCM solution to hire and retain the right talent, optimize routine functions, and transform people management into a strategic driver of business performance.

Our Solution and Key Strengths

We offer a unified, cloud-native platform, purpose-built to address the comprehensive people management needs of SMB leaders. Our intuitive, easy-to-use platform enables SMBs to easily automate and simplify the most mission-critical people management processes and enhance visibility into organizations' human capital to drive employee engagement and data-driven decisions. The key strengths of our platform include:

- ***Comprehensive Suite of HCM Solutions Architected to Meet the Full Range of an SMB's Needs.*** Our comprehensive HCM suite delivers industry-leading functionality. This empowers leaders to achieve strategic goals through differentiated people management. The key components of our HCM solutions include:
  - ***Cor HCM including Payroll Suite and Employee Experience****.* A complete suite of HCM tools spanning HR, onboarding, payroll, compensation management, employee surveys, expenses, reporting and analytics. Our powerful calculation engine enables real-time changes to drive fast and accurate payroll processing. Robust workflows and approval capabilities assist leaders with expediting and automating their most common tasks. AI-powered surveys use natural language processing to surface actionable, easy-to-understand insights from feedback enabling leaders to solve issues like turnover and low morale. Recognition tools allow employees to feel valued and visible within their organization.
  - ***Benefits Administration****.* Advanced decision support to help leaders streamline and optimize their company's benefits administration and spend with superior carrier connectivity and the ability to set up complex plans.
  - ***Talent Management****.* Powerful recruiting, talent management and learning management suite. Intuitive, configurable recruiting built for leaders with deep email integration, job board connectivity, and employee referral capabilities. Performance management capabilities, including advanced goal management paired with employee-manager one-on-ones, empowering leaders to drive employee professional growth and corporate alignment through ongoing conversations. In addition, tools for career planning help leaders conduct critical growth conversations with each member of their team while learning management powers continued employee development.
  - ***Workforce Management****.* Flexible time entry, overtime calculations, and scheduling capabilities with real-time payroll synchronization allowing leaders to manage costs and increase productivity.

- ***Uniquely Unified Platform Enabling Seamless Customer Experience.*** Our platform leverages a modern cloud architecture and robust API led interoperability engine. We deliver a unified user and data experience that serves as the single source of truth for our customers' employee data. Our platform allows for seamless access to people data across applications and the visibility to extract meaningful business insights from employee information in real-time. This unified data architecture automates error-prone manual processes, empowering leaders to shift their focus to strategic initiatives that drive long term business value.
- ***Open, Cloud-native Architecture Enables Differentiated Platform Extensibility.*** Our SaaS platform is flexible, scalable, and extensible, allowing us to continuously expand the breadth and depth of our product suite without compromising the unified user experience for both employers and employees. Our single instance, multi-tenant deployment enables us to deliver frequent, silent updates to maintain a consistent user experience on the latest version of our software. The extensibility of our platform allows for easy integrations to various technologies both within and outside of the HCM ecosystem, such as connections to benefits platforms to support our broker partnerships and integrations to industry-specific ERP systems.
- ***Industry-specific Functionality and Expertise.*** We provide SMBs with a combination of industry-specific product configurations, pre-built integrations with sought-after third-party solutions, and served by professionals with industry-specific training. Our HCM platform is configurable and flexibly designed to address a broad cross-section of vertical-specific use cases. Our solutions are supported by a proprietary implementation program and vibrant community of users, which together ensure customers can take full advantage of our industry-specific functionality.
- ***Powerful Analytics to Deliver Actionable Insights.*** We enable real-time visibility into an organization's people data through a comprehensive set of out-of-the-box analytics capabilities. Our powerful analytics allow SMBs to cost-effectively transform data into trends and predictions to benchmark, understand, and easily report on their workforce. With predictive analytics and robust benchmarking tools, our platform enables SMBs to make strategic, data-driven decisions to improve recruiting, labor cost management, employee performance, diversity and inclusion, and employee retention.
- ***Designed for People Leaders.*** Effective business leadership is critical to maximizing employee engagement and successful business performance. Our platform is purpose-built to provide people leaders with the tools they need to optimize every aspect of people management. With our end-to-end HCM functionality and deep analytics capabilities, people leaders can streamline people management functions, surface actionable insights, facilitate successful hiring, meaningfully engage their employees, and focus people management on strategic initiatives that drive business value.

Our Market Opportunity

We estimate our current annual recurring market opportunity is $29 billion in the U.S. and we expect the opportunity to grow as the number of SMBs increase and we continue to expand our product portfolio. To estimate our market opportunity, we identified the number of companies in the U.S. with an employee count between 10 and 1,000. Based on data from the U.S. Bureau of Labor Statistics released in December 2021, there were approximately 1.3 million businesses with between 10 to 1,000 employees, totaling 57.6 million employees within our target demographic. We then applied our $42 total list PEPM rate as of June 30, 2022 for our full suite of products including Cor HCM, Workforce Management, Benefits Administration, and Talent Management to derive our current total addressable market opportunity of $29 billion.

Growth Strategy

We intend to capitalize on our market opportunity with the following key growth strategies:

- ***Expand Sales Coverage.*** We believe there is substantial opportunity to continue to broaden our customer base. As of June 30, 2022, we had approximately 29,800 customers, which represented a small percentage of the U.S. market for HCM and payroll solutions. As a result of our historical footprint, a significant majority of our revenue is derived from the Great Lakes and Southeast regions of the United States. We focus our sales resources in the top 50 most densely populated United States cities. We intend to drive new customer additions by expanding our sales coverage, primarily in Tier 1 markets, where there is a substantial opportunity to grow our sales coverage and customer base. Sales coverage in Tier 1 markets increased from 20% to 28% in the last fiscal year. This is compared to 32% coverage in Tier 2 markets, or the subsequent 15 most populous U.S. metropolitan markets and 59% coverage in Tier 3 markets, or the 20 subsequent most populous U.S. metropolitan markets. We believe that our go-to-market strategy positions us well to scale our business efficiently and effectively into these markets.

- ***Accelerate Broker Channel Partnerships.*** Benefits brokers are trusted advisors to SMBs and are influential in the HCM selection process. We will continue to work with our existing broker partners and intend to expand our broker network through regional and national partnerships to drive customer acquisition.
- ***Expand Industry-specific Functionality and Leadership.*** SMBs in certain industries require unique functionality for their people management needs. We designed our platform to be easily configurable for industry-specific applications in key verticals such as manufacturing, healthcare, restaurants, and professional services. We will continue to expand our solutions and expertise in both existing and new key industries.
- ***Expand Product Penetration within Existing Customer Base.*** Our PEPM is increasing as we continue to grow our HCM suite. Our customers typically start with our Cor HR and Payroll solution, eventually expanding their usage of our platform over time. Because our product offerings have expanded significantly over the last few years, we have a significant opportunity to further penetrate our existing customer base.
- ***Continue to Innovate and Add New Solutions.*** Given our customer centric approach, we collaborate with our clients in the future development of our product offerings. We have a robust product roadmap that is specifically focused on enhancing our ability to address the unmet needs of our customers and prospective customers. We intend to continue to invest significantly in research and development, particularly regarding the functionality of our platform, to sustain and advance our product leadership.
- ***Pursue Strategic M&A.*** We have successfully acquired and integrated several businesses that complement and enhance our software and technology capabilities. We will continue to take a disciplined approach to identifying and evaluating potential acquisitions, ensuring we pursue strategies that expand the depth of our product portfolio and drive revenue synergies through cross sale opportunities. Our focused M&A strategy will help us to continue to drive growth and expand our market footprint and product leadership.

Our Products

Our comprehensive portfolio of SaaS-based people management products includes:

Cor HCM including Payroll Suite and Employee Experience

- ***Onboarding***: Enables customers to digitize the onboarding process by helping them to automate the collection of necessary new employee data, complete compliance forms, set up direct deposit, acknowledge company documents, and engage their new hires with necessary content such as training videos. Additionally, employees can complete the Work Opportunity Tax Credit (“WOTC”) information, and use electronic signatures to complete the onboarding process.
- ***HR***: Includes functionality allowing leaders to set up and manage the organizational structure such as company departments and locations; employee lifecycle actions such as promotions, transfers, and terminations; create a dynamic and digital company organizational chart; workflows and approvals; immunization tracking; and document storage.
- ***Payroll***: Fully-featured payroll and tax compliance engine with federal, state, and local tax support. Enables users to manage the entire payroll process including set up, payroll processing, reporting, direct deposit, check print, pay cards, and on-demand pay access. Provides payroll administrators with flexibility to make updates on the fly to current and future payroll cycles and see the results in real time. The solution is accompanied by services to assist leaders with filing compliance forms with multiple levels of government to fulfill company obligations.
- ***Expense Management***: A unified expense management system allows employees to create and manage expense reports, leaders to review and approve, and employees to get reimbursed quickly and efficiently.
- ***Recognition***: Enables employees to engage with their peers by recognizing great work and giving them a public “shout out” for their achievements. Recognition is tied to a company’s core values so employees understand how their work drives the company mission.
- ***Time Off Manager***: Enables customers to manage time off administration with functionality for key users. Administrators can set up and monitor accrual policies while empowering employees to request time off and view balances directly from the web or mobile app. Managers can approve time off via the web or mobile app and see a holistic view of their team via a time off dashboard and calendar view.

- ***Mobile***: Native iOS and Android app designed for employees and managers to have access to the HCM system from their preferred mobile device. Includes the ability for managers and employees to process workflow approvals, manage time and attendance, view paystubs, manage benefits, provide peer recognition, access company learning, access company news, view the employee directory, and view employee documents.
- ***ACA***: Reporting and filing tool to ensure customer compliance with the Affordable Care Act ("ACA") to help leaders understand workforce compliance, comply with measurement periods, and both generate and file necessary forms.
- ***Reporting***: Provides customers with a robust library of standard reports for their most common needs including federal and state compliance, employee rosters, and payroll reporting, such as pre and post journals. Additionally, the reporting engine gives customers the ability to do ad hoc reporting by enabling leaders to query their people data and design reports to suit their own needs.
- ***Compensation Management:*** Facilitates compensation strategy to reduce turnover and reward the right talent by automating compensation events in one system, taking the complexity out of planning. The tool enables leaders to create salary plans and associated budgets, distribute salary worksheets to managers for planning and what-if scenarios within defined budgets, view calculations and compensation metrics (such as compa-ratios), roll up plans for executive approval, and create new pay records upon completion – all fully integrated with performance management.
- ***Analytics***: Provides real-time data insights to help leaders make critical business decisions. It provides a broad set of templates including retention, compensation, diversity, benchmarking capabilities, predictive insights, and comparison tools. Leaders can run what-if analyses, create easily accessible, personalized dashboards of key business metrics, and create presentations on their people data.
- ***Employee Surveys***: Pulse, the employee survey tool, gives leaders an accurate way to gather and convert employee feedback into insights for actionable plans. Designed to help leaders regularly gauge what employees are thinking and feeling in real time, the tool facilitates both light-weight pulse surveys and in-depth engagement surveys through a combination of quantitative and qualitative questions. Results are put through the natural language processing and sentiment analysis engines that use the power of AI to quickly categorize unstructured feedback by theme and positive/negative sentiment, so leaders do not have to spend precious time manually parsing results.
- ***Wallet***: Allows employees to access their earned wages directly from the mobile app before their payday without fees when using their Visa card, giving leaders more flexible pay options for their employees.
- ***Developer Portal***: Our innovative Developer Portal makes it even easier for clients and partners to seamlessly integrate and sync data between HR and third-party systems. Leveraging powerful APIs, Paycor's modern, extensible platform enables rapid development and partner integrations.

Workforce Management

- ***Scheduling***: Enables leaders to plan and optimize schedules to budgets and easily create schedules based on templates. Employees can set their own availability, see when they are scheduled to work, and swap shifts with other employees, facilitated by built-in chat capabilities.
- ***Time and Labor Management***: Delivers a unified system of record with HR and Payroll. Facilitates time punching, timecard entry, timecard submittal, and timecard approval. Managers can proactively monitor hours and overtime via dashboards, providing leaders the visibility needed to control labor costs. Employees can interact with the software via the web, their phone, or a timeclock device. The software is designed to handle the various overtime, scheduling, and break rules required across the jurisdictions where employees work.

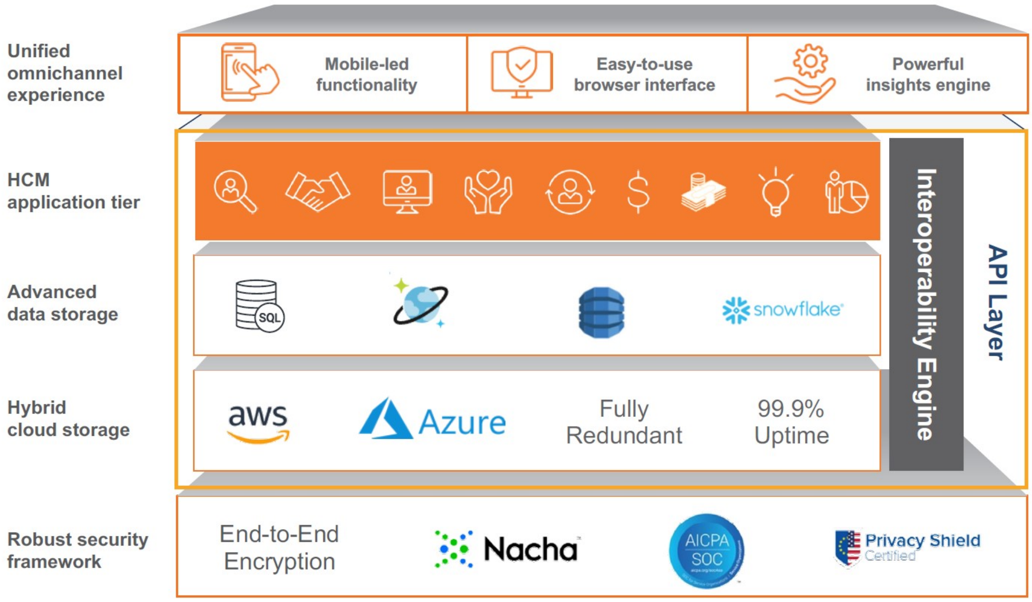
Benefits Administration

- ***Benefits***: Benefits Advisor is a rules-based platform that simplifies benefit administration tasks while empowering employees to make smart, cost-effective decisions. The tool provides benefit administration capabilities for plan set up and management, open enrollment with built in decision support for employees, life event-based enrollment for employees, and carrier connectivity to seamlessly pass enrollment information to benefit carriers.

Talent Management

- ***Recruiting***: Helps customers to streamline the recruiting process by fully managing both the requisition and candidate lifecycles. Recruiting allows leaders to communicate with candidates the way they want via both text message and email, schedule interviews, extend offers, and seamlessly begin the employee onboarding experience. Recruiters can gamify the referral process and reward employees who make referrals via our Gravity referral app. Additionally, the product can integrate with popular job boards, which helps to ease the frequent struggles of creating a healthy candidate pipeline. The Recruiting product also allows customers to create a fully branded careers site that matches the look and feel of their primary corporate site.
- ***Performance Management and Goal Setting***: Enables leaders to improve the quality of work by facilitating meaningful conversation and coaching that allow employees to feel heard, helping them better understand what they need to do to succeed. Customers can build customizable reviews for both the ongoing review process and the annual process, enable peer-to-peer feedback, and keep parties up-to-date with event and approver notifications and workflows. Additionally, specific, measurable, achievable, relevant and time-bound goals and objectives and key results can be created, tracked, and managed throughout the year, enabling regular manager-employee one-on-one check-ins to ensure goal alignment, progress, and completion.
- ***Learning Management***: Combines virtual, classroom, mobile, and social capabilities on one platform, so employees can learn at their own pace – whether in a curated course or in a self-paced, on-demand environment. It includes a robust delivered content library, a course builder for customers to create their own content and learning assessments, quizzes to ensure learner proficiency, and real-time course-completion data for leaders.

Our Technology



Our technology is based on a multi-tenant SaaS framework and utilizes automated build-and-deploy processes to release updates to customers. This gives us an advantage over many disparate traditional systems which are less flexible and require longer and costly development and upgrade cycles. Our technology is powered by a hybrid cloud configuration leveraging geographically dispersed co-located data centers hosted through Microsoft Azure and Amazon Web Services. Our platform is designed to be flexible, scalable, and highly configurable and is built on a layer of cloud-native micro services, which supports the platform's ability to easily integrate with other technologies in our customers' digital ecosystems. In addition, customer data is stored in a modern database layer and accessed through a unified reporting system.

The platform is designed with security as a top consideration and employs a defense-in-depth strategy through administrative, physical, and technical safeguards to ensure the protection, confidentiality, and integrity of our customers' data. The Company is NACHA certified, a voluntary accreditation program from the National Automated Clearing House Association which governs the nation's automated clearing house ("ACH") network and payment system. We also routinely complete SOC 1 and SOC 2 examinations. Service Organization Controls ("SOC") are standards established by the American Institute of Certified Public Accountants for reporting on internal control environments implemented within an organization. We continuously monitor our network and endpoint-based security threats along with antivirus software to guard against trojans, worms, viruses, and other malware.

Our Customers

As of June 30, 2022, we served approximately 47,100 clients from over 29,800 parent customers. Our target customers are companies with 10 to 1,000 employees and we specialize in manufacturing, healthcare, restaurants, and professional service industries. We currently have more than 2.3 million active employees on our platform.

Sales and Marketing

We sell our solutions through a direct sales team, comprised of field sales, insides sales and client sales, each organized by customer size, geography, and industry. Our field sales team focuses on generating new sales to prospects with more than 50 employees, while our inside sales team drives new sales to organizations with less than 50 employees. Our client sales team cross-sells additional bundles to existing customers. Our sales professionals are trained to take a consultative approach to uncover the specific challenges and industry-specific nuances faced by customers and ensure the right solutions are provided. Our sales footprint has historically been concentrated in Tier 2 and Tier 3 markets. We believe there is an attractive opportunity to grow our sales teams in Tier 1 markets.

A core component of our sales and marketing strategy is our partnerships with key centers of influence ("COIs"), which include benefits brokers, financial advisors, financial institutions, and HR consultants. These partnerships enhance our sales motion by generating high quality referrals and providing credibility to our product offerings.

We generate customer leads, accelerate sales opportunities, and build brand awareness through our direct marketing programs and robust network of COIs. We believe that our sales success is attributable to our differentiated unified platform, our ability to generate high customer return on investment, and our reputation for superior customer service. Our principal marketing efforts consist of paid, owned, and earned marketing strategies, including robust organic search engine optimization, paid digital media, account based marketing, channel partner marketing, and live and virtual events. Additionally, our HR Center of Excellence is an award-winning resource hub that provides existing and prospective customers with white papers, webinars, and industry research to help organizations optimize human capital management.

As of June 30, 2022, our sales and marketing organization included approximately 460 sales professionals.

Research and Development

We invest significantly in research and development to continuously introduce new applications, technologies, features, and functionality. We are organized in small product-centric teams that utilize an agile development methodology. We focus our efforts on developing new applications and core technologies as well as further enhancing the usability, functionality, reliability, performance, and flexibility of existing applications.

We expensed research and development costs through our consolidated statements of operations of $43.1 million and $36.0 million for the fiscal years ended June 30, 2022 and 2021, respectively. Additionally, we capitalized research and development costs on our consolidated balance sheets of $29.8 million and $21.2 million for the fiscal years ended June 30, 2022 and 2021, respectively. Our research and development personnel are principally located in Ohio and Texas, although many of our associates operate virtually. We seek to hire highly experienced personnel wherever they are located.

Our Service Model

GUIDE Implementation Model

- GUIDE is our differentiated implementation methodology, where we work to Gather, Understand, Import, Deliver, and Evaluate ("GUIDE"), ensuring a successful and seamless transition to our products.

- GUIDE Elite is a service that offers our larger prospective customers and all broker-referred clients a project manager who serves as the single point of contact and go-to implementation expert throughout the process. With GUIDE Elite, customers are offered extended implementation support of between six weeks to six months following product activation with a focus on training, utilization, and adoption to maximize the value of our technology and expertise.

Personalized Support Model

- Our personalized support model is based on matching customers with the specialist that has the skill set needed to answer their inquiry. Our customer experience team is based in the United States and delivers a responsive, consultative customer service experience. We have invested to enhance our client service, now providing omni-channel support spanning our self-service support center, live chat with a Customer Advocate, enhanced knowledge base with industry-specific knowledge and customer trainings, and online case management in addition to our traditional customer support phone line. Our larger customers are assigned a dedicated Customer Success Manager who is focused on driving the value of existing solutions, conducting Executive Business Reviews for strategic planning, and serving as a trusted advisor.

Seasonality

Our revenues are seasonal in nature. Recurring revenues include revenues relating to the annual processing of payroll forms, such as Form W-2, Form 1099, and Form 1095 and revenues from processing unscheduled payroll runs (such as bonuses) for our clients. Because payroll forms are typically processed in the third quarter of our fiscal year, third quarter revenue and margins are generally higher than in subsequent quarters. These seasonal fluctuations in 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.

Intellectual Property

Our success is dependent, in part, on our ability to protect our proprietary technology and other intellectual property rights. We rely on a combination of laws and intellectual property rights, including trade secrets, copyrights, and trademarks, as well as contractual protections to establish and protect our intellectual property rights. We require our associates and other employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and control access to software, documentation, and other proprietary information. In addition, we believe that factors such as the technological and creative skills of our personnel, creation of new modules, features and functionality and frequent enhancements to our applications are also essential to establishing and maintaining our technology leadership position in our industry.

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to misappropriate our rights or to copy or obtain and use our proprietary technology to develop applications with the same functionality as our applications. Policing unauthorized use of our technology and intellectual property rights is difficult and costly, and we may not be successful in detecting or preventing unauthorized activities.

We expect that providers of HCM and payroll solutions such as ours may be subject to third-party infringement claims as the market and the number of competitors grows and the functionality of applications in different industry segments overlaps. Any of our competitors or other third parties might make a claim of infringement against us, which would require us to defend ourselves regardless of the merits of such claim, and could divert the attention of management and cause us to incur costs.

Segment Information

We operate in a single operating segment and a single reporting segment. Since we operate as one segment, all required financial information is presented at the consolidated financial statement level.

Competition

The market for HCM and payroll solutions is fragmented, highly competitive, and rapidly changing. Our competitors vary for each of our solutions and include both enterprise and micro-focused software providers, such as legacy payroll service bureaus (ADP, Paychex, UKG), cloud HCM software providers (Paylocity, Paycom), and other regional service bureaus and in-house ERP software providers that offer limited functionality.

We believe the principal competitive factors in our market include the following:

- Benefits of a cloud-based technology platform.
- Breadth and depth of product functionality.
- Configurability and ease of use of our solutions.
- Modern, intuitive user experience.
- Ability to innovate and respond to customer needs rapidly.
- Domain expertise in HCM and payroll.
- Ease of implementation.
- Quality of implementation and customer service.
- Real-time web-based payroll processing.
- Integration with a wide variety of third-party applications and systems.
- Interoperability and data access.

We believe that we compete favorably on these factors within the SMB market. We believe our ability to remain competitive will depend on the success of our continued investment in sales and marketing, research and development, and implementation and customer services.

Regulation

As a provider of payroll and HCM solutions, our systems contain a significant amount of sensitive data related to clients, employees of our clients, vendors and our employees. Data privacy has become a significant issue in the United States and in other countries. The regulatory framework for privacy issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal and state government bodies and agencies have adopted or are considering adopting laws and regulations affecting or regarding the collection, use and disclosure of personal information. These include, for example, rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, the Family Medical Leave Act, the Affordable Care Act, state breach notification laws and state privacy laws, such as the California Consumer Privacy Act of 2018, the California Privacy Rights Act and the Illinois Biometric Information Privacy Act. Further, because some of our clients have international operations, the European Union's General Data Protection Regulation ("GDPR") and other foreign data privacy laws may impact our processing of certain client and employee information.

In addition, many of our solutions are designed to assist clients with their compliance with certain U.S. federal, state and local laws and regulations that apply to them. As such, our products and services may become subject to increasing and/or changing regulatory requirements, including changes in tax, benefit and other laws, and as these requirements proliferate, we may be required to change or adapt our products and services to comply. Changing regulatory requirements might reduce or eliminate the need for some of our products and services, block us from developing new products and services or have an adverse effect on the functionality and acceptance of our solution. This might in turn impose additional costs upon us to comply, modify or further develop our products and services. It might also make introduction of new products and services more costly or more time-consuming than we currently anticipate or prevent introduction of such new products and services. For example, the adoption of new money transmitter or money services business statutes in jurisdictions or changes in regulators' interpretation of existing state and federal money transmitter or money services business statutes or regulations, could subject us to registration or licensing or limit business activities until we are appropriately licensed.

Our ability to comply with and address the continuously evolving requirements and regulations applicable to our business depends on a variety of factors, including the functionality and design of our solutions and the manner in which our clients and their employees utilize them. We have implemented operating policies and procedures to protect the accuracy, privacy and security of our clients' and their employees' information and voluntarily undergo certain periodic audits and examinations and maintain certain certifications to demonstrate our commitment to regulatory compliance.

The foregoing description does not include an exhaustive list of the laws and regulations governing or impacting our business. See the discussion contained in Item 1.A "Risk Factors" of this Annual Report on Form 10-K for information regarding changes in laws and regulations that could have a materially adverse effect on our business, operating results or financial condition.

Human Capital

As of June 30, 2022, we had approximately 2,300 associates, primarily located in the United States, with the majority working virtually. We add temporary workers for business peaks and engage consultants for specialized functions. Our associates are not represented by labor unions, nor have we experienced a work stoppage.

We were recognized as a Top Workplace USA in 2022 and 2021 by Energage, LLC. In 2021, we were also recognized as a Top Workplace for Diversity, Equity and Inclusion (DE&I) Practices by Energage, LLC, the results of which have not yet been released for 2022.

Our Guiding Principles

Our culture is guided by principles that encourage our associates to thrive and bring their whole selves to work. Our guiding principles are designed to act as a North Star for our associates in how they work with a colleague, for a client, and in the community:

- ***Take Care of Customers First***. Our customers are our heroes. When they win, we win.
- ***Take Care of Each Other***. There's nothing better than working with friends who look out for you.
- ***Do the Right Thing***. It's not always the easy way—but it's what really matters.
- ***Think Big, Dream Big***. Never say never! Solve problems, invent a better way, disrupt the status quo.
- ***Compete to Win***. We embody the spirit of success in everything we do, in our habits and routines, our relationships, and in the energy and accountability we bring to the game.
- ***Have Fun Along the Way***. Buckle up, it's a fast-paced business! That's why we celebrate the wins, laugh in the face of adversity, and enjoy the ride.

Talent Acquisition and Development

We strive to provide best-in-class benefits, performance rewards, and career development opportunities to attract and retain top talent. We recently expanded benefit options to include domestic partner coverage. In an effort to further invest in our associates, bolster associate engagement and align our associates' interests with shareholders' objectives, we provide a one-time, new hire equity grant to all eligible full-time associates that vests over time. We support professional development through tuition reimbursement, industry credential support, career coaching, 100+ classes covering technical, leadership, and professional skills, and tailored development plans.

Diversity, Equity and Inclusion

We are actively committed to diversity, equity, and inclusion (“DE&I”). We embrace the diverse mosaic of our associates and build high-performing teams dedicated to success and belonging. The table below summarizes our workforce demographics as of June 30, 2022:

	Total
Gender:	
Female	50.3%
Male	49.7%
	100.0%
Ethnicity:	
Native American or Alaska Native	0.3%
Asian	6.7%
Black or African American	10.0%
Hispanic or Latinx	4.8%
Native Hawaiian or other Pacific Islander	0.1%
Two or More Races	3.3%
White	70.4%
Undisclosed*	4.4%
	100.0%

* Individuals preferred not to disclose ethnicity

Our DE&I strategy is guided by four pillars:

1. Strategic Education and Awareness
2. Transparency in our Data
3. Equity of Pay, Hiring and Treatment of Targeted Populations
4. Purpose and Perspective

These pillars outline the foundation of our action steps as they relate to the goals of the entire organization. We established corporate goals to increase the inclusion and belonging of, and the number of associates and leaders from underrepresented groups and plan to continue to evolve these goals over time to improve representation. In developing these goals, we conducted an internal needs assessment and concluded that our opportunities are to focus on educating our associates, clients and partners, providing transparency to our stakeholders, and recruiting, retaining and promoting diverse leadership and perspectives across the Company.

We have incorporated our DE&I strategy and learning into associate onboarding and leader trainings as our associates play a key role in fostering a culture of inclusion. Additionally, our commitment to DE&I is reflected through our seven employee resource groups (“ERGs”). We believe our ERGs create a community of inclusion and belonging, and create a safe space for learning and dialogue around the celebrations and challenges that diverse communities face. Each ERG has an executive sponsor and is supported by senior leaders across the Company.

Community Giving

Giving back is in our DNA. We empower our associates to make a difference in a way that we believe is meaningful to them. We dedicate several days each year for Paycor It Forward, where our associates give back to the communities where we live and work. Our Community Partners program is a grassroots organization funded by associates who choose to give their own time and resources to serve. The Paycor Community Impact Fund provides project grants to local philanthropic organizations.

Corporate Information

We are a Delaware corporation incorporated in August 2018. We completed our IPO in July 2021 and our common stock is listed on the Nasdaq Global Select Market under the ticker symbol "PYCR." Our principal executive offices are located at 4811 Montgomery Road, Cincinnati, Ohio 45212, and our telephone number is (800) 381-0053. Our website is www.paycor.com.

Available Information

We are subject to the informational and reporting requirements of the Exchange Act. Therefore, we file periodic reports, proxy statements, and other information with the SEC. The public may read and copy materials we file with the SEC via its website (www.sec.gov), which includes our annual and quarterly reports, proxy statements, and other information.

Our corporate website is www.paycor.com, and our investor relations website is located at investors.paycor.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports can be found on our investor relations website, free of charge, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not incorporated by reference into or part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

In addition to the other information in this report and our other filings with the SEC, you should carefully consider the risks and uncertainties described below, which could materially and adversely affect our business operations, financial condition and results of operations. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, financial condition, operating results, and prospects could be materially and adversely affected. In that event, the price of our common stock could decline and you could lose all or part of your investment.

Risk Factor Summary

The following summary description sets forth an overview of the material risks we are exposed to in the normal course of our business activities. The summary does not purport to be complete and is qualified in its entirety by reference to the full risk factor discussion immediately following this summary description.

- Our ability to manage our growth effectively.
- The resulting effects of any potential breach of our security measures or any unauthorized access to our customers' or their employees' personal data, including by way of computer viruses, worms, phishing and ransomware attacks, malicious software programs, and other data security threats.
- The expansion and retention of our direct sales force with qualified and productive persons and the related effects on the growth of our business.
- The impact on customer expansion and retention if implementation, user experience, customer service, or performance relating to our solutions is not satisfactory.
- The timing of payments made to employees and taxing authorities relative to the timing of when a customer's electronic funds transfers are settled to our account.
- Future acquisitions of other companies' businesses, technologies, or customer portfolios.
- The continued service of our key executives.
- Our ability to innovate and deliver high-quality, technologically advanced products and services.
- Our ability to attract and retain qualified personnel, including software developers and skilled IT, sales, marketing, and operation personnel.
- The proper operation of our software.
- Our relationships with third parties.
- Damage, failure, or disruption of our Software-as-a-Service ("SaaS") delivery model, data centers, or our third-party providers' services.
- Our ability to protect our intellectual and proprietary rights.
- The use of open source software in our applications.
- The growth of the market for cloud-based human capital management and payroll software among small and medium- sized businesses ("SMBs").
- The competitiveness of our market generally.
- The effects of inflation, supply chain disruptions, labor shortages and other ongoing macroeconomic impacts from the novel coronavirus pandemic ("COVID-19 pandemic").
- The impact of an economic recession in the United States ("U.S.") or global economy.
- Our customers' dependence on our solutions to comply with applicable laws.
- Our ability to comply with anti-corruption, anti-bribery and similar laws.
- Changes in laws, regulations, or requirements applicable to our software and services.
- The impact of privacy, data protection, tax and other laws and regulations.

- Our ability to maintain effective internal controls over financial reporting.

Risks Relating to Our Business, Products, and Operations

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

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

Additionally, we rely on the expansion of our relationships with our third-party partners as we grow our solutions. Our agreements with third parties are typically non-exclusive and do not prohibit them from working with our competitors. Our competitors may be effective in providing incentives to these same third parties to favor their products or services. In addition, acquisitions of our partners by our competitors could result in a reduction in the number of our current and potential customers, as our partners may no longer facilitate the adoption of our applications by potential customers after an acquisition by any of our competitors.

If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our revenues could be impaired, which could have a material adverse effect on our business, financial condition, and results of operations. Even if we are successful, we cannot assure you that these relationships will result in increased customer usage of our applications or increased revenues.

If our security measures are breached, or unauthorized access to our customers' or their employees' personal data is otherwise obtained, we may be subject to lawsuits, fines, or other regulatory action, causing us to incur significant costs related to remediation, our solutions may not be perceived as being secure, customers may reduce the use of or stop using our solutions, our ability to attract new customers may be harmed, and we may incur significant liabilities.

Our solutions involve the collection, processing, storage, use, disclosure, and transmission of customers' and their employees' confidential and proprietary information, including personal data, as well as financial and payroll data. We rely on the efficient and uninterrupted operation of complex information technology systems and networks to operate our business. Attempts by others to gain unauthorized access to information technology systems and the data contained therein are becoming increasingly sophisticated and difficult to prevent. In particular, HCM software such as ours may be specifically targeted in cyber-attacks, including by way of computer viruses, worms, phishing attacks, ransomware, malicious software programs, and other data security threats, which could result in the unauthorized release, access, gathering, monitoring, encryption, misuse, loss, or destruction of our customers' sensitive and/or confidential data (including personal data), or otherwise disrupt our customers' or other third parties' business operations. If cybercriminals, including those working in the capacity of hackers, State actors, inside threats, or cybercrime groups, can circumvent our security measures, or if we are unable to detect an intrusion into or misuse of our systems and contain such intrusion or misuse in a reasonable amount of time, our information and our customers' personal data, including confidential and personal data, may be compromised. We seek to detect and investigate all security incidents and to prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effects. There can be no assurance that our Information Technology ("IT") security and recovery system will be sufficient to prevent or limit the damage from any future cyber-attack or disruptions or to allow us to reinstate any operations that were affected by such attack or disruption. Additionally, customers or other third parties may seek monetary damages from us in connection with any such breaches or other incidents.

Certain of our employees have access to personal data about our customers' 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. Outside parties have in the past, and may also attempt in the future to fraudulently induce our employees to disclose personal data via illegal electronic spamming, phishing, or other tactics. In addition, some of our third-party service providers and other vendors have access to certain portions of our IT system. Any failures or negligence on the part of these service providers may cause material disruptions in our business.

Although we have security measures in place to protect regulated and personal data, and to prevent data loss and other security breaches, these measures could be breached because of third-party action, employee error, third-party or employee malfeasance, or otherwise. 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, our cyber liability insurance coverage 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.

We have experienced data security incidents in the past, and expect to experience additional incidents in the future, however, to date no such incidents have been material. Any actual or perceived data security breach or incident could require notifications to data subjects, data owners, and/or other third parties (including regulators) under applicable data breach notification laws, damage our reputation, cause existing customers to discontinue the use of our solutions, prevent us from attracting new customers, 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.

If our systems, or the systems at our third-party service providers, were breached or attacked, the proprietary and confidential information of our company and our customers as well as personal data could be disclosed, and we may be required to incur substantial costs and liabilities, including the following:

- Expenses to rectify the consequences of the security breach or cyber-attack.
- Claims by customers or their employees related to stolen information, including personal data.
- Costs of repairing damage to our systems.
- Lost revenue and income resulting from any system downtime caused by such breach or attack.
- Loss of competitive advantage if our proprietary information is obtained by competitors as a result of such breach or attack.
- Increased costs of cyber security insurance or other security risk mitigation tools.
- Damage to our reputation.

As a result, any compromise of security of our systems or cyber-attack could have a material adverse effect on our business, reputation, financial condition, and operating results.

If we fail to adequately expand and retain our direct sales team with qualified and productive persons, or if our direct sales efforts are not successful, we may not be able to grow our business effectively.

We primarily sell our products and implementation services through our direct sales team. Generating new customer relationships with SMBs, our primary customer base, depends heavily on a qualified and trained sales team. To grow our business, we intend to focus on growing our direct sales force and our customer base for the foreseeable future. Our ability to add customers and to achieve revenue growth in the future will depend upon our ability to grow and develop our direct sales force and on our direct sales force's ability to productively sell our solutions. Identifying and recruiting qualified personnel and training them in the use of our software requires considerable time, expense, and attention. Recruiting and developing sales personnel in locations where we do not have experience hiring and selling our products may be more difficult than we anticipate. The amount of time it takes for our sales representatives to be fully trained and to become productive varies widely. Some of our sales personnel do not successfully generate new business with customers even after significant investment by us in recruiting, hiring and training them, and we incur expenses to replace them. In addition, if we hire sales personnel from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources.

Our ability to achieve significant revenue growth in the future will depend on the success of our direct sales force and our ability to adapt our sales efforts to address the evolving markets for our products. If our sales organization does not perform as expected, our revenues and revenue growth could suffer. In addition, if we are unable to hire, develop, and retain talented sales personnel, if our sales team becomes less efficient as it grows or if new sales representatives are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to grow our customer base and revenues and our sales and marketing expenses may increase.

Our business, operating results, financial condition, or reputation could be adversely affected if our customers are not satisfied with our implementation, user experience, or customer service, or if our solutions fail to perform properly.

Our business depends on our ability to satisfy our customers, both with respect to our applications and the technical support provided to help our customers use the applications that address the needs of their businesses. We use implementation and customer services teams to implement and configure our solutions and provide support to our customers. Customers' support requests span numerous subjects, and the volume of such requests can be high, particularly during peak periods (such as open enrollment season), which may result in long wait times to contact us for support. If a customer is not satisfied with the quality of our solutions, the applications delivered, or the timeliness or quality of support provided, we could incur additional costs to address the situation, our profitability might be negatively affected, and the customer's dissatisfaction with our implementation or support service could harm our ability to sell additional applications to that customer. In addition, our sales process is highly dependent on the reputation of our solutions and applications and on positive recommendations from our existing customers. Our customers have no obligation to continue to use our applications and may choose not to continue to use our applications at the same or higher level of service, if at all. Moreover, our customers generally have the right to cancel their agreements with us for any or no reason by providing 30 days' prior written notice. In the past, some of our customers have elected not to continue to use our applications. Any failure to maintain a high-quality user experience and customer support, or a market perception that we do not maintain high-quality support, could adversely affect customer retention, our reputation, our ability to sell our applications to existing and prospective customers, and, as a result, our business, operating results, or financial condition.

Further, our solutions are inherently complex and may in the future contain or develop undetected defects or errors. Any defects in our applications could adversely affect our reputation, impair our ability to sell our applications in the future or retain current clients, and result in significant costs to us. The costs incurred in correcting any application defects may be substantial and could adversely affect our business, operating results, or financial condition. Any defects in functionality or defects that cause interruptions in the availability of our applications could result in:

- Loss of clients or delayed market acceptance and sales of our applications.
- Termination of service agreements or loss of customers.
- Credits, refunds, or other liability to customers, including reimbursements for any fees or penalties assessed by regulatory agencies.
- Breach of contract, breach of warranty, or indemnification claims against us, which may result in litigation.
- Diversion of development and service resources, or increased costs to hire additional development and service resources to correct defects or errors.
- Increased scrutiny of our solutions from regulatory agencies.
- Injury to our reputation.

Because of the large amount of data that we collect and manage, it is possible that hardware failures or errors in our applications could result in data loss, data corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant. Our customers might assert claims against us in the future alleging that they suffered damages due to a defect, error, or other failure of our solutions. Our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover all claims made against us, and defending a suit, regardless of its merit, could be costly and divert management's attention. Any failures in the performance of our solutions could harm our reputation and our ability to retain existing customers and attract new customers, which would have an adverse impact on our business, operating results, or financial condition. See "—Risks Relating to Our Business, Products and Operations—Our software might not operate properly, which could damage our reputation, give rise to claims against us, or divert application of our resources from other purposes, any of which could harm our business and operating results."

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

Our payroll processing application moves significant funds from the account of a customer to employees and relevant taxing authorities. For larger funding amounts, we typically require customers to transfer the funds to us via fed wire, but we sometimes process payroll prior to confirmation of receipt of such funds. For smaller funding amounts, we debit a customer's account prior to any disbursement on its behalf, and due to ACH banking regulations, funds previously credited could be reversed under certain circumstances and time frames after our payment of amounts due to employees and taxing and other regulatory authorities. There is therefore a risk that the customer's funds will be insufficient to cover the amounts we have already paid on its behalf. While such shortage and accompanying financial exposure has only occurred in very limited circumstances in the past, should customers default on their payment obligations in the future, we might be required to advance substantial funds to cover such obligations. Additionally, if our customers enter into bankruptcy or liquidation proceedings following such a default, we may be treated as an unsecured creditor and incur related expenses or fail to obtain the full amount of such obligation, resulting in a loss. For example, we have in the past had customers enter into Chapter 11 bankruptcy proceedings following a failure to fund payroll that we advanced. In such an event, we may incur a negative impact to our cash position and be required to seek additional sources of short-term liquidity, which may not be available on reasonable terms, if at all, and our operating results and our liquidity could be adversely affected, and our banking relationships could be harmed.

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

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

Successful integration involves many challenges, and we may have difficulty integrating acquired personnel, operations, and technologies of acquired companies, or effectively managing the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

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

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

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

We are dependent on the continued service of our executive officers and other senior leaders and, if we fail to retain such key executives, our business could be adversely affected.

We believe that our success depends in part on the continued services of our senior management team, including Raul Villar Jr., our Chief Executive Officer, Adam Ante, our Chief Financial Officer, Chuck Mueller, our Chief Revenue Officer, and our other executive officers and senior leaders. Our business could be adversely affected if we fail to retain these key executives. Except with Mr. Villar Jr., Mr. Ante and Mr. Mueller, we do not have employment agreements with our executive officers or other key personnel that contract them to continue to work for us for any specified period, and, therefore, they could terminate their employment with us at any time. Although the employment arrangements of certain of our key executives contain non-competition restrictions, our business could nonetheless be adversely affected if a key executive leaves the Company and attempts to compete with us. In addition, we have not purchased key person life insurance on any members of our executive team.

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

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

Our success depends in substantial part on our continuing ability to provide products and services that SMBs will find superior to our competitors' product offerings and will continue to use. Our future success will depend upon our ability to anticipate and to adapt to changes in technology and industry standards, and to effectively develop, to introduce, to market, and to gain broad acceptance of new product and service enhancements incorporating the latest technological advancements. In addition, because our solutions are designed to operate on a variety of systems, we will need to continuously modify and enhance our solutions to keep pace with changes in internet-related hardware, iOS, Android, and other software, and communication, browser, and database technologies. We intend to continue to invest significant resources in research and development to enhance our existing products and services and introduce new high-quality products that customers will want. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis or to effectively bring new products to market, our sales may suffer. In addition, investment in product development often involves a long return on investment cycle. We have made and expect to continue to make significant investments in product development. We may expend significant time and resources developing and pursuing sales of a particular enhancement or application that may not result in revenues in the anticipated time frame or at all, or may not result in revenue growth sufficient to offset increased expenses. Furthermore, uncertainties about the timing and nature of new functionality, or new functionality to existing platforms or technologies, could increase our research and development expenses. Any failure of our applications to operate effectively with future network platforms and technologies could reduce the demand for our applications, result in customer dissatisfaction, and have a material adverse effect on our business, financial condition, and results of operations.

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

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

If we are unable to attract and retain qualified personnel, including software developers and skilled IT, sales, marketing, and operational personnel, our ability to develop and market new and existing products, as well as acquire and retain customers, and, in turn, increase our revenue and profitability could be adversely affected.

Our future success is dependent on our ability to continue to enhance and introduce new applications. As a result, we are heavily dependent on our ability to attract and retain qualified software developers and IT personnel with the requisite education, background, and industry experience. In addition, to continue to execute our growth strategy, we must also attract and retain qualified sales, marketing, and operational personnel capable of supporting a larger and more diverse customer base. The software industry is characterized by a high level of employee mobility and aggressive recruiting among competitors. This competition for qualified personnel may be amplified by new immigration laws or policies that could limit software companies' ability to recruit internationally. Although such changes in immigration laws or policies would not have a significant direct impact on our workforce, the ensuing increase in demand for software developers and IT personnel could impair our ability to attract or retain skilled employees and/or significantly increase our costs to do so. Furthermore, identifying and recruiting qualified personnel and training them in the use of our applications requires considerable time, expense, and attention, and it can take a substantial amount of time before our employees are fully trained and productive. Additionally, to the extent we hire employees that are subject to non-competition agreements with prior employers, they and we may be subject to litigation to enforce such agreements, which may divert their and our attention and resources and ultimately result in their inability to remain employed by us. Certain of our employees have been or are a party to litigation of non-competition agreements, which we have agreed to defend. The loss of the services of a significant number of employees could be disruptive to our development efforts, which may adversely affect our business by causing us to lose customers, increase operating expenses, or divert management's attention to recruit replacements for the departed employees.

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

Our payroll and HCM software is complex and may contain or develop undetected defects or errors, particularly when first introduced or as new versions and updates are released. From time to time we have discovered defects or errors in our products. In addition, because changes in laws and regulatory standards applying to employers are frequent, we may discover limitations or defects and errors in our software and service processes in the normal course of business compared against these requirements and practices. Material performance problems or defects in our products and services might arise in the future, which could have an adverse impact on our business and customer relationship and subject us to claims.

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

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

Our business depends in part on the success of our relationships with third parties.

We rely on third-party couriers, financial and accounting processing systems, and various financial institutions, to deliver payroll checks and tax forms, perform financial services in connection with our applications, such as providing ACH and wire transfers as part of our payroll and tax payment services, and to provide technology and content support, manufacture time clocks, and process background checks. We anticipate that we will continue to depend on various third-party relationships to grow our business, provide technology and content support, manufacture time clocks, process background checks, and deliver payroll checks and tax forms. Identifying, negotiating, and documenting relationships with these third parties and integrating third-party content and technology requires considerable time and resources. Our agreements with third parties typically are non-exclusive and do not prohibit them from working with our competitors. In addition, these third parties may not perform as expected under our agreements, and we may have disagreements or disputes with such third parties, which could negatively affect our brand and reputation. A global economic slowdown or recession could also adversely affect the businesses of our third-party providers, hindering their ability to provide the services on which we rely. Further, a disruption of the Federal Reserve Bank's services, including ACH processing, could negatively affect our payroll and expense reimbursement services by delaying direct deposits and other financial transactions across the United States. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to grow our revenues could be impaired, and our business, operating results, or financial condition could be adversely affected. Even if we are successful, these relationships may not result in improved operating results.

Our financial results may continue to fluctuate due to many factors, some of which may be beyond our control.

Our results of operations, including our revenues, costs of revenues, administrative expenses, operating income, cash flow, and deferred revenue, may vary significantly in the future, and the results of any one period should not be relied upon as an indication of future performance. Fluctuations in our financial results may negatively impact the value of our common stock. Our financial results may fluctuate because of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. Factors that may cause our financial results to fluctuate from period to period include, without limitation:

- Our ability to attract new customers or sell additional applications to our existing customers.
- The development and maturation of the market for cloud-based HCM and payroll software among SMBs.
- The number of new customers and their employees, as compared to the number of existing customers and their employees in a particular period.
- The mix of customers between small and mid-sized organizations.
- The extent to which we retain existing customers and the expansion or contraction of our relationships with them.
- The mix of applications sold during a period.
- Changes in our pricing policies or those of our competitors.
- Seasonal factors affecting payroll processing, demand for our applications, or potential customers' purchasing decisions.
- The amount and timing of operating expenses, including those related to the maintenance and expansion of our business, operations, and infrastructure.
- The timing and success of new applications introduced by us and the timing of expenses related to the development of new applications and technologies.
- The timing and success of current and new competitive products and services offered by our competitors.
- Economic conditions affecting our customers, including their ability to outsource HCM solutions and hire employees.
- Business disruptions caused by the rapid spread of contagious disease, including pandemics such as the COVID-19 pandemic, or armed conflicts, including Russia's actions in Ukraine and the resulting geopolitical instability.
- Changes in laws, regulations, or policies affecting our customers' legal obligations and, as a result, demand for certain applications.

- Changes in trade, monetary and fiscal policies and other political and economic conditions, including government shutdowns.
- Credit market constriction or volatility.
- Changes in the competitive dynamics of our industry, including consolidation among competitors or customers.
- Our ability to manage our existing business and future growth, including expenses related to our data centers, and the expansion of such data centers and the addition of new offices.
- The effects and expenses of acquisition of third-party technologies or businesses and any potential future charges for impairment of goodwill resulting from those acquisitions.
- Inclement weather or natural disasters, including but not limited to tornadoes, hurricanes, fires, earthquakes, and floods.
- Network outages or security breaches.
- General economic, industry, and market conditions.
- Other factors described in this "Risk Factors" section.

Our number of new customers typically increases more during our third fiscal quarter ending March 31 than during the rest of our fiscal year, primarily because many new customers prefer to start using our payroll or HCM solutions at the beginning of a calendar year. In addition, client funds and year-end activities are traditionally higher during our third fiscal quarter.

We have a history of losses and may not achieve or maintain profitability in the future.

We incurred losses from operations of $139.6 million and $89.3 million in the fiscal years ended June 30, 2022 and 2021, respectively. We must generate and sustain higher revenue levels in future periods to become profitable, and, even if we do, we may not be able to maintain or increase our profitability. We expect to continue to incur losses for the foreseeable future as we expend substantial financial and other resources on, among other things:

- Sales and marketing, including expanding our direct sales team.
- Investments in the development of new products and new features for, and enhancement of, our existing products.
- Expansion of our operations and infrastructure organically and through acquisitions and strategic partnerships, both domestically and internationally.
- General administration, including legal, risk management, accounting, and other expenses related to being a public company.

These expenditures may not result in additional revenue or the growth of our business. Accordingly, we may not be able to generate sufficient revenue to offset our expected cost increases and achieve and sustain profitability. If we fail to achieve and sustain profitability, the market price of our common stock could decline.

If our goodwill or other intangible assets become impaired, we may be required to record a significant charge to earnings.

We are required to test goodwill for impairment at least annually or earlier if events or changes in circumstances indicate the carrying value may not be recoverable. As of June 30, 2022, we had recorded a total of $750.2 million of goodwill and $263.1 million of other intangible assets. An adverse change in domestic or global market conditions, particularly if such change has the effect of changing one of our critical assumptions or estimates made in connection with the impairment testing of goodwill or intangible assets, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill or other intangible assets. Any such material charges may have a negative impact on our operating results or financial condition.

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

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

Our estimates of certain operational metrics, as well as of total addressable market and market growth, are subject to inherent challenges in measurement.

We make certain estimates with regard to certain operational metrics which we track using internal systems that are not independently verified by any third-party. While the metrics presented in this report are based on what we believe to be reasonable assumptions and estimates, our internal systems have a number of limitations, and our methodologies for tracking these metrics may change over time.

Additionally, total addressable market and growth estimates are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Our estimates relating to size and expected growth of our market may prove to be inaccurate. Even if the market in which we compete meets our size and growth estimates, our business could fail to grow at similar rates. If investors do not perceive our estimates of total addressable market and market growth or our operational metrics to be accurate, or if we discover material inaccuracies with respect to these figures, our reputation may be significantly harmed, and our results of operations and financial condition could be adversely affected.

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

The market for HCM and payroll solutions is fragmented, highly competitive, and rapidly changing. Our competitors may develop products that are superior to our products or achieve greater market acceptance. We may be unable to compete successfully against current or future competitors. With the introduction of new technologies and market entrants, competition could intensify in the future.

We believe the principal competitive factors in our market include breadth and depth of product functionality, scalability and reliability of applications, modern and innovative cloud technology platforms combined with an intuitive user experience, multi-country and jurisdiction domain expertise in HCM and payroll, quality of implementation and customer service, integration with a wide variety of third-party applications and systems, total cost of ownership and return on investment, brand awareness, reputation, pricing, and distribution. We face a variety of competitors, some of which are long-established providers of HCM solutions.

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

In order to capitalize on customer demand for cloud applications, legacy vendors are modernizing and expanding their applications through cloud acquisitions and organic development. Legacy vendors may also seek to partner with other leading cloud HCM providers. We also face competition from vendors selling custom software and point solutions. Our competitors vary for each of our solutions and primarily include payroll and HR service and software providers, such as Automatic Data Processing, Inc., Paychex, Inc., Paycom Software, Inc., Paylocity Holding Corp., Ultimate Software Group, Inc. and other local and regional providers. In addition, other companies, such as NetSuite, Inc. and Microsoft Corporation, that provide cloud applications in different target markets, may develop applications or acquire companies that operate in our target markets, and some potential customers may elect to develop their own internal applications. Our competitors could offer HCM solutions on a standalone basis or bundled as part of a larger product sale.

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

If our competitors' products, services, or technologies become more accepted than our applications, if they are successful in bringing their products or services to market earlier than ours, or if their products or services are more technologically capable than ours, it could have a material adverse effect on our business, financial condition, and results of operations. In addition, some of our competitors may offer their products and services at a lower price. If we are unable to achieve our target pricing levels or if we experience significant pricing pressures, it could have a material adverse effect on our business, financial condition, and results of operations.

We may be adversely affected by the evolving nature and continuing impacts of the COVID-19 pandemic, including ongoing effects of inflation, supply chain disruption and labor shortages in the markets in which we and our customers operate.

The extent to which the COVID-19 pandemic impacts our business, operations, and financial results is uncertain and subject to political, social, economic, and regulatory factors that are outside of our control, including the duration of the pandemic; emerging information concerning the severity and incidence of the virus and its variants; the emergence of additional virus variants or resurgences of the virus globally; the rate at which the population globally becomes vaccinated against COVID-19; the development and availability of antiviral therapeutic alternatives; and continued political and social debate relating to the public health response to the pandemic. Further, the COVID-19 pandemic has caused, and may continue to cause, negative impacts on macroeconomic conditions, including inflation, supply chain disruptions and labor shortages, which in turn, could result in a recession in the United States or in the global economy. Macroeconomic impacts related to the COVID-19 pandemic are expected to continue to pose risks to our and our customers' businesses for the foreseeable future, heightened by many of the risks and uncertainties identified above, and could have a materially adverse impact on our business, financial condition, and results of operations.

We may be adversely impacted by an economic slowdown, or a recession.

If an economic slowdown or recession emerges, we may experience declines in revenues, profitability and cash flows from lower customer demand, including as a result of customer workforce reductions, payment delays, collection difficulties, increased pricing pressures and other factors caused by the impact of adverse economic conditions on our customers. Although we believe that our cash flows from operations and available borrowing capacity under our credit facility will provide us with sufficient liquidity, adverse conditions in the financial and credit markets, lower consumer confidence and spending, inflation, higher labor, healthcare, and insurance costs, fluctuating fuel and commodities costs and their effects on the U.S. and global economies and markets are all examples of negative factors, which could cause customers to delay or forgo expansion of our solutions. These economic conditions may also reduce our customers' operating budgets or ability to commit funds to purchase our solutions or renew their existing contracts with us. If an economic recession is followed by a slow and relatively weak recovery, the effects from a broadening or protracted extension of these negative economic conditions on our customers could have a significant adverse effect on our revenues, cash flows and results of operations.

In the event of a catastrophe, our business continuity plan may fail, which could result in the loss of customer data and adversely interrupt operations.

Our operations are dependent on our ability to protect our infrastructure against damage from catastrophe or natural disaster, severe weather, including events resulting from climate change, unauthorized security breach, power loss, telecommunications failure, terrorist attack, public health emergency, or other events that could have a significant disruptive effect on our operations. We have customer service and sales associates based in or near Jacksonville, Florida, an area that has experienced hurricanes and that routinely faces a threat from hurricanes during the late Summer and early Fall months. We have a business continuity plan in place in the event of system failure due to any of these events. Our business continuity plan has been tested in the past by circumstances of severe weather, including hurricanes, floods, and snowstorms, and has been successful. However, these past successes are not an indicator of success in the future. If the business continuity plan is unsuccessful in a disaster recovery scenario, we could potentially lose customer data or experience material adverse interruptions to our operations, or delivery of services to our customers.

Risks Relating to Information Technology Systems and Intellectual Property

Any damage, failure, or disruption of our SaaS delivery model, data centers, or our third-party providers' services, could impair our ability to effectively provide our solutions, harm our reputation, and adversely affect our business.

Our SaaS delivery model is a critical part of our business operations. Our customers access our solutions and are served through our cloud-based platform including data centers located in Lebanon, Ohio and Lombard, Illinois. We also have agreements with Microsoft Azure and Amazon Web Services for externally hosted cloud computing services. Our SaaS delivery model and data centers, as well as externally hosted cloud services, are vulnerable to damage, failure, and disruption.

Furthermore, our payroll module is essential to our customers' timely payment of wages to their employees. Any interruption in our service may affect the availability, accuracy, or timeliness of these programs and could damage our reputation, cause our customers to terminate their relationship with us, or prevent us from gaining additional business from current or future customers.

In the future, we may experience issues with our platform caused by the following factors:

- Human error.
- Telecommunications failures or outages from third-party providers.
- Computer viruses, cyber-attacks or other security breaches.
- Acts of terrorism, sabotage, intentional acts of vandalism, or other misconduct.
- Tornadoes, fires, earthquakes, hurricanes, floods, and other natural disasters.
- Power loss.
- Other unforeseen interruptions or damages.

If our SaaS delivery model or our customers' ability to access our platform is interrupted, customer and employee data may be permanently lost, and we could be exposed to significant claims by customers, particularly if the access interruption is associated with problems in the timely delivery of funds payable to employees. Further, any adverse changes in service levels at our data centers resulting from damage to or failure of such centers could result in disruptions in our services. We also may decide to employ additional offsite data centers in the future to accommodate growth. Problems faced by our data center locations (such as a hardware failure or shortage or other supply chain disruption resulting from the COVID-19 pandemic), with the telecommunications network providers with whom we contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the availability and processing of our solutions and related services and the experience of our customers. If our data centers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business and cause us to incur additional expense. Further, any significant instances of system downtime or performance problems at our data centers could negatively affect our reputation and ability to attract new customers, prevent us from gaining new or additional business from our current customers, or cause our current customers to terminate their use of our solutions, any of which would adversely impact our revenues. In addition, if our cloud-based infrastructure and data centers fail to support increased capacity due to growth in our business, our customers may experience interruptions in the availability of our solutions. Such interruptions may reduce our revenues, cause us to issue refunds to customers, or adversely affect our retention of existing customers, any of which could have a negative impact on our business, operating results, or financial condition.

In addition, our third-party providers have experienced, and may in the future experience, security breaches, service interruptions or delays, and performance degradation in their services. For example, Microsoft has employed changes in their Azure environment that have impacted us. The Microsoft Azure changes created unavailability of their applications for a period of time that reduced our employees' productivity and effectiveness, and resulted in service disruptions. Despite precautions our third-party providers may take, security breaches, outages, delays, or impact to computing performance in third-party provider services could also harm our business.

If we fail to adequately protect our proprietary rights, our competitive advantage could be impaired, and we may lose valuable assets, generate reduced revenues, or incur costly litigation to protect our rights.

Our success is dependent in part upon our intellectual property. We rely on a combination of copyrights, trademarks, service marks, trade secret, and other intellectual property laws and contractual provisions to establish and to protect our intellectual property and other proprietary rights. However, the steps we take to protect our intellectual property and other proprietary rights may be inadequate. We will not be able to protect our intellectual property and other proprietary rights if we are unable to enforce our rights, or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our applications and use information that we regard as proprietary to create products or services that compete with ours.

We may be required to spend significant resources to monitor and protect our intellectual property and other proprietary rights. Litigation may be necessary in the future to defend, protect, and enforce our intellectual property rights and to protect our trade secrets. Such litigation could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. We may not be able to secure, protect and enforce our intellectual property rights or control access to, or the distribution of, our solutions and proprietary information, which could adversely affect our business. A failure to protect our intellectual property or other proprietary rights could adversely affect our business, financial condition, and results of operations.

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

We have in the past and may in the future continue to incorporate certain "open source" software into our codebase and our solutions. Open source software is generally licensed by its authors or other third parties under open source licenses, which typically do not provide for any representations, warranties, or indemnity coverage by the licensor. Some of these licenses provide that combinations of open source software with a licensee's proprietary software is subject to the open source license and require that the combination be made available to third parties in source code form or at no cost. Some open source licenses may also require the licensee to grant licenses under certain of its intellectual property to third parties. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate such software into their products or applications. The terms of various open source licenses have not been interpreted by courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our use of open source software. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition, or require us to devote additional development resources to change our applications. In addition, if we were to combine our applications with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our applications. If we inappropriately use open source software, we may be required to redesign our applications, discontinue the sale of our solutions, or take other remedial actions, which could adversely impact our business, operating results, or financial condition.

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

There is patent and other intellectual property development activity in our industry. We cannot guarantee that the operation of our business does not infringe upon the intellectual property rights of others. Our competitors, as well as other entities or individuals, may own or claim to own intellectual property relevant to our industry. In the future, others may claim that our solutions and underlying technology infringe or violate their intellectual property rights. However, we may be unaware of the intellectual property rights that others may claim cover some or all our products. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages, settlement costs or royalty payments, indemnify our customers or business partners or refund fees, obtain licenses, prevent us from offering or require us to modify our products, services, applications, or technology, or require that we comply with other unfavorable terms. Even if we were to prevail in such a dispute, any litigation or dispute regarding our intellectual property could be costly and time-consuming, and divert the attention of our management and key personnel from our business operations.

Risks Relating to Regulation and Litigation

Customers depend on our products and services to enable them to comply with applicable laws, which requires us and our third-party providers to constantly monitor applicable laws and to make applicable changes to our solutions; if our solutions have not been updated to enable the customer to comply with applicable laws or we fail to update our solutions on a timely basis, it could have a material adverse effect on our business, financial condition, and results of operations.

Customers rely on our solutions to enable them to comply with payroll, HR, and other applicable laws for which the solutions are intended for use. Changes in tax, benefits, and other laws and regulations could require us to make significant modifications to our products or to delay or to cease sales of certain products, which could result in reduced revenues or revenue growth, and incurring substantial expenses, and write-offs. There are thousands of jurisdictions in the United States and multiple laws in some or all such jurisdictions, which may be relevant to the solutions that we or our third-party providers provide to our customers. Therefore, we and our third-party providers must monitor all applicable laws and as such laws expand, evolve, or are amended in any way, and when new regulations or laws are implemented, we may be required to modify our solutions to enable our customers to comply, which requires an investment of our time and resources. Although we believe that our software delivery model provides us with flexibility to release updates in response to these changes, we cannot be certain that we will be able to make the necessary changes to our solutions and release updates on a timely basis, or at all. In addition, we are reliant on our third-party providers to modify the solutions that they provide to our customers as part of our solutions to comply with changes to such laws and regulations. The number of laws and regulations that we are required to monitor will increase as we expand the geographic region in which the solutions are offered or as we expand to focus on different industry verticals. When a law changes, we must then test our solutions to meet the requirements necessary to enable our customers to comply with the new law. If our solutions fail to enable a customer to comply with applicable laws, we could be subject to negative customer experiences, harm to our reputation, loss of customers, claims for any fines, penalties, or other damages suffered by our customer, and other financial harm. Additionally, the costs associated with such monitoring implementation of changes are significant. If our solutions do not enable our customers to comply with applicable laws and regulations, it could have a material adverse effect on our business, financial condition, and results of operations.

Additionally, certain of our current and future product offerings may be subject to the broad regulatory, supervisory, and enforcement powers of the Consumer Financial Protection Bureau or state-level consumer financial protection agencies, which may exercise authority with respect to such products, or the marketing and servicing of those products, through the oversight of commercial partners, or by otherwise exercising its supervisory, regulatory, or enforcement authority over consumer financial products and services.

Additionally, if we fail to make any changes to our products as described herein, which are required because of such changes to, or enactment of, any applicable laws in a timely fashion, we could be responsible for fines and penalties implemented by governmental and regulatory bodies. If we fail to provide contracted services, such as processing W-2 tax forms or remitting taxes in accordance with deadlines set by law, our customers could incur fines, penalties, interest, or other damages, which our customers could claim we are responsible for paying. Our payment of fines, penalties, interest, or other damages because of our failure to provide compliance services prior to deadlines may have a material adverse effect on our business, financial condition, and results of operations.

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

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

Privacy laws or other regulations may reduce the effectiveness of our applications.

Our products and services are subject to various complex laws and regulations on the federal, state, and local levels, including those governing data security and privacy, which have become significant issues globally. The regulatory framework for privacy issues is rapidly evolving and is likely to remain uncertain and inconsistently enforced for the foreseeable future. Many federal, state, and foreign governmental bodies and agencies have adopted or are considering adopting laws and regulations regarding the creation, collection, receipt, processing, handling, maintenance, storage, use, disclosure, and transmission of personal data and other sensitive information. In the United States, these include rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, the Family Medical Leave Act of 1993, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, federal and state labor and employment laws, state data breach notification laws, and state privacy laws, such as the California Consumer Privacy Act (the "CCPA") and the Illinois Biometric Information Privacy Act (the "IBIPA").

The CCPA went into effect on January 1, 2020 and established a new privacy framework for covered businesses such as ours, which may require us to modify our data processing practices and policies. The CCPA imposes severe statutory damages and provides consumers with a private right of action for certain data breaches. Further, in November 2020, California voters passed the California Privacy Rights and Enforcement Act ("CPRA"), which expands the CCPA with additional data privacy compliance requirements that may impact our business, and establishes a regulatory agency dedicated to enforcing those requirements. It remains unclear how various provisions of the CCPA and CPRA will be interpreted and enforced.

The IBIPA regulates the collection, use, safeguarding, and storage of "biometric identifiers" or "biometric information" by companies such as ours. IBIPA includes a private right of action for persons who are aggrieved by violations of the IBIPA. Even in circumstances where we do not believe a regulation applies to our activities, we may still be the subject of lawsuits alleging a regulation does apply. We are currently a defendant in three lawsuits, two in Illinois state court, and one in federal court in the Southern District of Illinois, related to the IBIPA. Each alleges that the Company violated IBIPA by failing to provide adequate notices and obtain consent from users of timekeeping devices that use handprint and/or fingerprint scanning for employee timekeeping. We do not believe IBIPA applies to the Company as alleged in the complaints and strenuously deny these claims. In the two state court cases, we made a motion to dismiss the action, which was denied by the court. The cases are currently in discovery and we have filed a motion for summary judgment, which is pending. The federal court lawsuit was recently stayed by the court. While adverse results in these lawsuits may include awards of substantial monetary damages, we believe it is too early to determine the possibility of liability and have not accrued any potential or estimated liabilities relating to these matters.

Further, because some of our customers have establishments in the European Union (“EU”) or otherwise process the personal data of EU residents, the GDPR 2016/679 may apply to our processing of certain customer and employee information. The GDPR went into effect on May 25, 2018 and has resulted in and will continue to result in significantly greater compliance burdens and costs for companies like us. Any data security breach could require notifications to the data subject and/or owners under federal, U.S., U.S. state, and/or international data breach notification laws and regulations.

The effects of the CCPA, CPRA, IBIPA, GDPR and other U.S. state, U.S. federal, and international laws and regulations that are currently in effect or that may go into effect in the future, are significant and may require us to modify our data processing practices and policies and to incur substantial costs and potential liability in an effort to comply with such laws and regulations. Any actual or perceived failure to comply with these and other data protection and privacy laws and regulations could result in regulatory scrutiny and increased exposure to the risk of litigation or the imposition of consent orders, resolution agreements, requirements to take particular actions with respect to training, policies or other activities, and civil and criminal penalties, including fines, which could have an adverse effect on our results of operations or financial condition. Moreover, allegations of non-compliance, whether or not true, could be costly, time consuming, distracting to management, and cause reputational harm.

In addition to government regulation, privacy advocates, and industry groups may propose new and different self-regulatory standards. Because the interpretation and application of privacy and data protection laws are still uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our solutions. Any failure to comply with government laws or regulations that apply to our applications, including privacy and data protection laws, could subject us to liability. In addition to the possibility of fines, lawsuits, and other claims, we could be required to fundamentally change our business activities and practices or modify our solutions, which could have an adverse effect on our business, operating results, or financial condition. Any actual or perceived inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations, standards, and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business, operating results, or financial condition.

Furthermore, privacy concerns may cause our customers’ employees to resist providing the personal data necessary to allow our customers and their employees to use our applications effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our applications in certain industries. All these legislative and regulatory initiatives may adversely affect our ability, or our customers to create, collect, receive, process, handle, maintain, store, transmit, use, or disclose demographic and personal data from their employees, which could reduce demand for our solutions.

Adverse tax laws or regulations could be enacted, or existing laws could be applied in a manner adverse to us or our customers, which could increase the costs of our solutions and applications and could adversely affect our business, operating results, or financial condition.

As a vendor of services, we are ordinarily held responsible by taxing authorities for collecting and paying any applicable sales, use or other taxes. Additionally, the application of federal, state, and local tax laws to services provided electronically like ours is evolving. New income, sales, use, or other tax laws, statutes, rules, regulations, or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services and applications provided over the internet. These enactments could adversely affect our sales activity, due to the inherent cost increase the taxes would represent, and could adversely affect our business, operating results, or financial condition.

Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that change over time. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, we may voluntarily engage state tax authorities in order to determine how to comply with that state’s rules and regulations. We cannot ensure that we will not be subject to sales and use taxes or related penalties for past sales in states where we currently believe no such taxes are required.

In addition, existing tax laws, statutes, rules, regulations, or ordinances could be interpreted, changed, modified, or applied adversely to us (possibly with retroactive effect), which could require us or our customers to pay additional tax amounts, as well as require us or our customers to pay fines or penalties and substantial interest for past amounts. If we are unsuccessful in collecting such taxes from our customers, we could be held liable for such costs, thereby adversely affecting our business, operating results, or financial condition. Additionally, the imposition of such taxes on us would effectively increase the cost of our software and services we provide to customers and would likely have a negative impact on our ability to retain existing customers or to gain new customers in the jurisdictions in which such taxes are imposed.

We are involved in litigation from time to time arising from the operation of our business and, as such, we could incur substantial judgments, fines, legal fees or other costs.

We are sometimes the subject of complaints or litigation from customers, employees, or other third parties for various actions. For example, customers use our products in connection with the preparation and filing of tax returns and other regulatory reports. If any of our products contain errors that produce inaccurate results upon which users rely, or cause users to misfile or fail to file required information, we could be subject to liability claims from users. Our cloud and maintenance renewal agreements with our customers typically contain provisions intended to limit our exposure to such claims, but such provisions may not be effective in limiting our exposure. Contractual limitations we use may not be enforceable and may not provide us with adequate protection against product liability claims in certain jurisdictions. A successful claim for product or service liability brought against us could result in substantial cost to us and divert management's attention from our operations. We are also, from time to time, involved in litigation involving claims related to, among other things, breach of contract, tortious conduct, data security and privacy matters, intellectual property matters and employment and labor law matters. The damages sought against us in some of these litigation proceedings could be substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business and reputation may be adversely impacted if we fail to comply with anti-corruption laws and regulations, economic and trade sanctions, anti-money laundering laws and regulations, and similar laws.

We are subject to the Foreign Corrupt Practices Act and other similar laws and regulations concerning bribery and corruption, which prohibit improper payments or offers of payments to government officials and politicians, and in some cases, to other persons, for the purpose of obtaining or retaining business. We are also required to comply with the economic sanctions and embargo programs administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury and similar governmental agencies and multi-national bodies worldwide, which prohibit or restrict transactions or dealings with specified countries, their governments and, in certain circumstances, their nationals, and with individuals and entities that are designated by these authorities. In addition, some of our businesses and entities are subject to anti-money laundering laws and regulations, including, for example, The Bank Secrecy Act of 1970, as amended. As we seek to expand our international operations, we may face additional risks in regards to compliance with foreign laws and regulations related to economic sanctions, anti-corruption, and anti-money-laundering. A violation of any applicable anti-corruption laws or regulations, sanctions or embargo programs, or anti-money laundering laws or regulations, could subject us, and individual employees, to a regulatory enforcement action as well as significant civil and criminal penalties which could adversely impact our business and operations and our reputation.

Risks Relating to Our Indebtedness

Our level of indebtedness may increase and adversely affect our business, growth prospects, and financial condition, as well as our ability to raise additional capital on favorable terms, which could, in turn, hinder our ability to expand our operations and invest in our business and new technologies.

As of June 30, 2022, we had no outstanding debt and $200.0 million of borrowing capacity under our senior secured revolving credit facility (see Note 9 to our consolidated financial statements). To the extent that our cash flows from operations are not sufficient to meet our current and future financial obligations, including funding our operations and capital expenditures, our level of indebtedness may increase from time to time. Borrowings under the credit facility are secured by first-priority perfected security interests in substantially all of our assets and the assets of our domestic subsidiaries, subject to permitted liens and other exceptions. In addition, the agreement under which the credit facility is provided to us contains affirmative and negative financial covenants and other restrictions and limitations that could have important consequences to us, including restricting our ability to pursue significant business opportunities and to engage in other actions that we may believe are advisable or necessary for our business. The breach of any of these covenants or restrictions could result in a default under our credit agreements that would permit the applicable lenders to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay our debt, creditors would have the right to proceed against the collateral securing the debt. In any such case, we may be unable to borrow under our credit facility and may not be able to repay the amounts due. This could have serious consequences to our business, financial condition and results of operations and could cause us to become bankrupt or insolvent.

Although the credit agreement contains restrictions on our ability to incur additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of additional indebtedness and liens we may be permitted to incur in compliance with these restrictions could be substantial. Incurring substantial additional indebtedness could further exacerbate the risks associated with our level of indebtedness.

Our ability to make scheduled payments or to refinance our outstanding debt obligations depends on our financial and operating performance, which is subject to prevailing economic, industry and competitive conditions and to certain financial, business, economic, and other factors beyond our control, including those discussed under "Risks Related to Our Business, Products, and Operations" above. Additionally, fluctuations in interest rates could increase our borrowing costs. Increases in interest rates may directly impact the amount of interest we are required to pay and reduce earnings accordingly. We may not be able to maintain a sufficient level of cash flow from operating activities to permit us to pay the principal, premium, if any, and interest on any outstanding indebtedness. Any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which would also harm our ability to incur additional indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital, or seek to restructure or refinance our indebtedness. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such cash flows and resources, we could face substantial liquidity problems and may be required to sell material assets or operations to attempt to meet our debt service obligations. We may not be able to consummate these asset sales to raise capital or sell assets at prices and on terms that we believe are fair and any proceeds that we do receive may not be adequate to meet any debt service obligations then due. If we cannot meet our debt service obligations, the holders of our indebtedness may accelerate such indebtedness and, to the extent such indebtedness is secured, foreclose on our assets. In such an event, we may not have sufficient assets to repay all of our indebtedness.

If we need to raise additional capital, we may not be able to obtain additional debt or equity financing on favorable terms or at all. If we engage in additional debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness, force us to maintain specified liquidity or other ratios, or restrict our ability to pay dividends or make acquisitions, or other investments. If we issue additional equity, our security holders may experience significant dilution of their ownership interests. If we need additional capital and cannot raise it on acceptable terms, or at all, we may not be able to, among other things:

- Develop and enhance our products and solutions.
- Continue to expand our product development, sales, and marketing organizations.
- Hire, train, and retain employees.
- Respond to competitive pressures or unanticipated working capital requirements.
- Pursue acquisition opportunities.

If our ability to expand our operations and invest in our business and new technologies is hindered, our ability to compete successfully could be reduced, which, in turn, could have an adverse effect on our business and results of operations.

Risks Relating to Our Common Stock

Apax Partners controls us, and its interests may conflict with ours or yours in the future.

Apax Partners beneficially owned approximately 127,357,193 shares of our common stock, or 72.5% at August 19, 2022. This significant concentration of ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. In addition, these stockholders will be able to exercise influence over all matters requiring stockholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit the ability of our other stockholders to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other stockholders.

In addition, we have entered into a Director Nomination Agreement with Apax Partners that provides Apax Partners the right to designate: (i) all of the nominees for election to our Board for so long as it beneficially owns at least 40% of the total number of shares of our common stock beneficially owned by it upon completion of our IPO (the “Original Amount”); (ii) 40% of the nominees for election to our Board for so long as it beneficially owns less than 40% but at least 30% of the Original Amount; (iii) 30% of the nominees for election to our Board for so long as it beneficially owns less than 30% but at least 20% of the Original Amount; (iv) 20% of the nominees for election to our Board for so long as it beneficially owns less than 20% but at least 10% of the Original Amount; and (v) one of the nominees for election to our Board for so long as it beneficially owns at least 5% of the Original Amount. Apax Partners may also assign such right to its affiliates. The Director Nomination Agreement also provides for certain consent rights for Apax Partners so long as it owns at least 5% of the Original Amount, including for any increase to the size of our Board. Additionally, the Director Nomination Agreement also prohibits us from increasing or decreasing the size of our Board without the prior written consent of Apax Partners for so long as Apax Partners holds at least 5% of the Original Amount.

Apax Partners and its affiliates engage in a broad spectrum of activities, including investments in the software industry generally. In the ordinary course of their business activities, Apax Partners and its affiliates may engage in activities where their interests conflict with our interests or those of our other shareholders, such as investing in or advising businesses that directly or indirectly compete with certain portions of our business or are suppliers or customers of ours. Our certificate of incorporation that became effective in connection with the closing of our IPO provides that none of Apax Partners, any of its affiliates or any director who is not employed by us (including any non-employee director who serves as one of our officers in both his director and officer capacities) or its affiliates has any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. Apax Partners also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, Apax Partners may have an interest in pursuing acquisitions, divestitures, and other transactions that, in its judgment, could enhance its investment, even though such transactions might involve risks to you.

We are a “controlled company” within the meaning of Nasdaq rules of the and, as a result, we qualify for, and rely on, exemptions from certain corporate governance requirements. You do not have the same protections as those afforded to stockholders of companies that are subject to such governance requirements.

Apax Partners, through its control of Pride Aggregator, controls a majority of the voting power of our outstanding common stock. As a result, we are a “controlled company” within the meaning of the corporate governance standards of the Nasdaq. Under these rules, a company of which more than 50% of the voting power for the election of directors is held by an individual, group, or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including:

- The requirement that a majority of our Board consist of independent directors.
- The requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities.
- The requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities.
- The requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

As a result, we do not have a majority of independent directors on our Board, our Compensation & Benefits Committee and our Governance Committee do not consist entirely of independent directors and our Compensation & Benefits and Nominating & Governance Committees are not subject to annual performance evaluations. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of Nasdaq.

There has been an active, liquid trading market for our common stock for only a short period of time, which may limit your ability to sell your shares.

Our IPO, occurred in July 2021. Therefore, there has been a public market for our Class A common stock for a short period of time. Although we have listed our common stock on the Nasdaq under the symbol "PYCR", an active trading market for our common stock may not be sustained. A public trading market having the desirable characteristics of depth, liquidity, and orderliness depends upon the existence of willing buyers and sellers at any given time, such existence being dependent upon the individual decisions of buyers and sellers over which neither we nor any market maker has control. The failure of an active and liquid trading market to develop and continue would likely have a material adverse effect on the value of our common stock. The market price of our common stock may decline and you may not be able to sell your shares of our common stock at the price you purchased it, or at all. An inactive market may also impair our ability to raise capital to continue to fund operations by issuing shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

We are an "emerging growth company" and have elected to comply with reduced public company reporting requirements, which could make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups ("JOBS") Act. For as long as we continue to be an emerging growth company, we are eligible for certain exemptions from various public company reporting requirements. These exemptions include, but are not limited to, (i) not being required to comply with the auditor attestation requirements of Section 404 of Sarbanes-Oxley, (ii) reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements, and (iii) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years following our IPO, with the fifth anniversary occurring in 2026. However, if certain events occur prior to the end of such five-year period, including if we become a "large accelerated filer," our annual gross revenue exceeds $1.07 billion or we issue more than $1.0 billion of non-convertible debt in any three-year period, we would cease to be an emerging growth company prior to the end of such five-year period. We have made certain elections with regard to the reduced disclosure obligations regarding executive compensation and may elect to take advantage of other reduced disclosure obligations in future filings. As a result, the information that we provide to holders of our common stock may be different than you might receive from other public reporting companies in which you hold equity interests. We cannot predict if investors will find our common stock less attractive as a result of our reliance on these exemptions. If some investors find our common stock less attractive as a result of any choice we make to reduce disclosure, there may be a less active trading market for our common stock and the market price for our common stock may be more volatile.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can use the extended transition period provided in Section 7(a)(2)(B) of the Securities Act to delay adoption of new or revised accounting standards until such time as those standards apply to private companies. We have elected to "opt-in" to this extended transition period for complying with new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that comply with such new or revised accounting standards on a non-delayed basis. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

Provisions of our corporate governance documents could make an acquisition of us more difficult and may prevent attempts by our shareholders to replace or remove our current management, even if beneficial to our shareholders.

In addition to Apax Partners' beneficial ownership, our certificate of incorporation and bylaws and the Delaware General Corporation Law (the "DGCL") contain provisions that could make it more difficult for a third-party to acquire us, even if doing so might be beneficial to our shareholders. Among other things:

- These provisions allow us to authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without shareholder approval, and which may include supermajority voting, special approval, dividend, or other rights or preferences superior to the rights of shareholders.
- These provisions provide for a classified Board with staggered three-year terms.
- These provisions provide that, at any time when Apax Partners beneficially owns, in the aggregate, less than 40% in voting power of our stock entitled to vote generally in the election of directors, directors may only be removed for cause, and only by the affirmative vote of holders of at least 66⅔% in voting power of all the then-outstanding shares of our stock entitled to vote thereon, voting together as a single class.

- These provisions prohibit shareholder action by written consent from and after the date on which Apax Partners beneficially owns, in the aggregate, less than 35% in voting power of our stock entitled to vote generally in the election of directors.
- These provisions provide that for as long as Apax Partners beneficially owns, in the aggregate, at least 50% in voting power of our stock entitled to vote generally in the election of directors, any amendment, alteration, rescission, or repeal of our bylaws by our shareholders will require the affirmative vote of a majority in voting power of the outstanding shares of our stock and at any time when Apax Partners beneficially owns, in the aggregate, less than 50% in voting power of all outstanding shares of our stock entitled to vote generally in the election of directors, any amendment, alteration, rescission, or repeal of our bylaws by our shareholders will require the affirmative vote of the holders of at least 66⅔% in voting power of all the then-outstanding shares of our stock entitled to vote thereon, voting together as a single class.
- These provisions establish advance notice requirements for nominations for elections to our Board or for proposing matters that can be acted upon by shareholders at shareholder meetings; provided, however, at any time when Apax Partners beneficially owns, in the aggregate, at least 10% in voting power of our stock entitled to vote generally in the election of directors, such advance notice procedure will not apply to it.

Our certificate of incorporation contains a provision that provides us with protections similar to Section 203 of the DGCL, and prevents us from engaging in a business combination with a person (excluding Apax Partners and any of its direct or indirect transferees and any group as to which such persons are a party) who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock, unless board or shareholder approval is obtained prior to the acquisition. These provisions could discourage, delay or prevent a transaction involving a change in control of us. These provisions could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors of your choosing and cause us to take other corporate actions you desire, including actions that you may deem advantageous, or negatively affect the trading price of our common stock. In addition, because our Board is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our shareholders to replace current members of our management team.

These and other provisions in our certificate of incorporation, bylaws, and Delaware law could make it more difficult for shareholders or potential acquirers to obtain control of our Board or initiate actions that are opposed by our then-current Board, including delay or impede a merger, tender offer, or proxy contest involving our company. The existence of these provisions could negatively affect the price of our common stock and limit opportunities for you to realize value in a corporate transaction.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our shareholders and the federal district courts of the United States as the exclusive forum for litigation arising under the Securities Act, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our certificate of incorporation, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our shareholders, (3) any action asserting a claim against us arising pursuant to any provision of the DGCL, our certificate of incorporation or our bylaws, or (4) any other action asserting a claim against us that is governed by the internal affairs doctrine; provided that for the avoidance of doubt, the forum selection provision that identifies the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation, including any "derivative action," will not apply to suits to enforce a duty or liability created by Securities Act, the Exchange Act, or any other claim for which the federal courts have exclusive jurisdiction. Our certificate of incorporation also provides that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. However, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce a duty or liability created by the Securities Act or the rules and regulations thereunder; accordingly, we cannot be certain that a court would enforce such provision. Our certificate of incorporation further provides that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the provisions of our certificate of incorporation described above; however, our shareholders will not be deemed to have waived (and cannot waive) compliance with the federal securities laws and the rules and regulations thereunder. The forum selection clause in our certificate of incorporation may have the effect of discouraging lawsuits against us or our directors and officers and may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us. If the enforceability of our forum selection provision were to be challenged, we may incur additional costs associated with resolving such a challenge. While we currently have no basis to expect any such challenge would be successful, if a court were to find our forum selection provision to be inapplicable or unenforceable, we may incur additional costs associated with having to litigate in other jurisdictions, which could have an adverse effect on our business, financial condition, and results of operations and result in a diversion of the time and resources of our employees, management, and Board.

Our operating results and stock price may be volatile.

Our quarterly operating results are likely to fluctuate in the future. In addition, securities markets worldwide have experienced, and are likely to continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market, or political conditions, could subject the market price of our shares to wide price fluctuations regardless of our operating performance. Our operating results and the trading price of our shares may fluctuate in response to various factors, including the factors mentioned throughout this section.

A significant portion of our total outstanding shares may be sold into the market in the near future. This could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. There were 175,643,109 outstanding shares of our common stock as of August 19, 2022. The market price of our stock could decline if the holders of shares sell them or are perceived by the market as intending to sell them.

We have no current plans to pay regular cash dividends on our common stock and you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We do not anticipate paying any regular cash dividends on our common stock for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our Board and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions, and other factors that our Board may deem relevant. In addition, our ability to pay dividends is, and may be in the future, limited by covenants of indebtedness we or our subsidiaries incur. Therefore, any return on investment in our common stock is solely dependent upon the appreciation of the price of our common stock on the open market, which may not occur.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Our certificate of incorporation authorizes us to issue one or more series of preferred stock. Our Board will have the authority to determine the preferences, limitations, and relative rights of the shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our shareholders. Our preferred stock could be issued with voting, liquidation, dividend, and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discouraging bids for our common stock at a premium to the market price, and materially adversely affect the market price and the voting and other rights of the holders of our common stock.

Future offerings of debt or equity securities by us may materially adversely affect the market price of our common stock.

In the future, we may attempt to obtain financing or to further increase our capital resources by issuing additional shares of our common stock or offering debt or other equity securities, including senior or subordinated notes, debt securities convertible into equity, or shares of preferred stock. In addition, we may seek to expand operations in the future to other markets which we would expect to finance through a combination of additional issuances of equity, corporate indebtedness, and/or cash from operations.

Issuing additional shares of our common stock or other equity securities or securities convertible into equity may dilute the economic and voting rights of our existing stockholders or reduce the market price of our common stock or both. Upon liquidation, holders of such debt securities and preferred shares, if issued, and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our common stock. Debt securities convertible into equity could be subject to adjustments in the conversion ratio pursuant to which certain events may increase the number of equity securities issuable upon conversion. Preferred shares, if issued, could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our common stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, which may adversely affect the amount, timing, or nature of our future offerings. Thus, holders of our common stock bear the risk that our future offerings may reduce the market price of our common stock and dilute their stockholdings in us.

General Risks

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

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

Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting until the later of our second annual report or the first annual report required to be filed with the SEC following the date we are no longer an “emerging growth company” as defined in the JOBS Act. We cannot assure you that there will not be material weaknesses in our internal controls in the future.

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

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our corporate headquarters in Cincinnati, Ohio, which occupies 135,577 square feet. We also lease office spaces in Florida, Ohio, and Texas as well as an office in Belgrade, Serbia. We believe that these facilities are suitable for our current operations and upon the expiration of the terms of the leases we believe we could renew these leases or find suitable space elsewhere on acceptable terms.

Item 3. Legal Proceedings

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, we believe would individually or taken together have a material adverse effect on our business, financial condition, or liquidity. For additional information, see Note 18 - “Commitments and Contingencies” to our Consolidated Financial Statements under Item 8. of Part II of this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures

None.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

On July 21, 2021, our common stock began trading on the Nasdaq Global Select Market under the ticker symbol "PYCR." Prior to that, there was no public trading market for our common stock.

As of August 19, 2022, there were 5 holders of record of our common stock. This figure does not include "street" holders whose shares of our common stock are held of record by banks, brokers and other financial institutions.

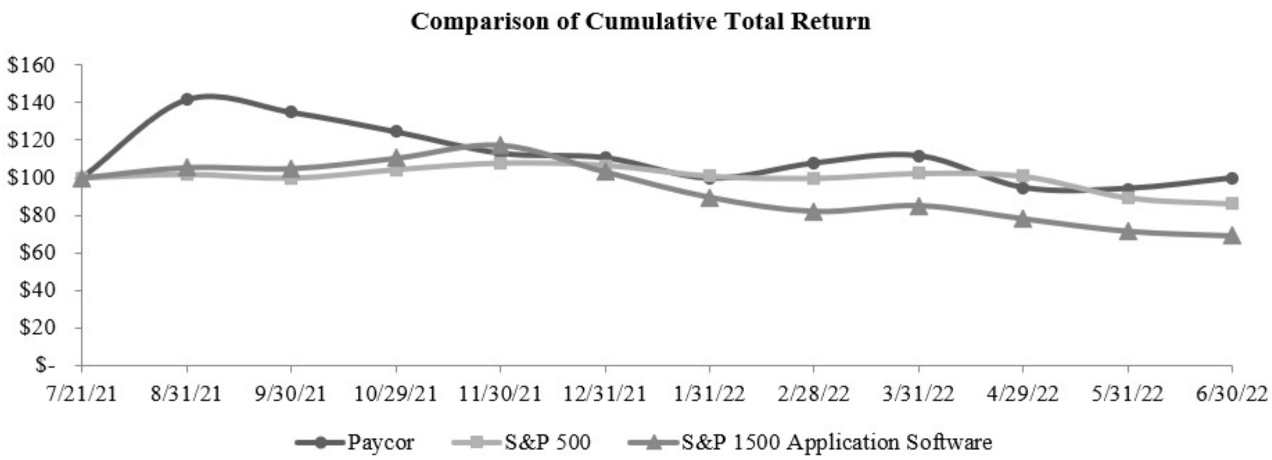
Dividend Policy

Since our IPO, we have not declared or paid any cash dividends on our common stock, and we do not intend to in the foreseeable future. We are a holding company that does not conduct any business operations on our own. As a result, our ability to pay cash dividends on our common stock, if any, is dependent upon cash dividends and distributions and other transfers from Paycor, Inc., our operating subsidiary ("Paycor"). In addition, any amounts available to us to pay cash dividends would be subject to the covenants and restrictions in Paycor's credit agreement. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our Board of Directors and will depend on then existing conditions, including our financial condition, operating results, legal and contractual restrictions, capital requirements, business prospects and other factors our Board of Directors may deem relevant.

Stock Performance Graph

The following performance graph shall not be deemed soliciting material or to be filed with the SEC for purposes of Section 18 of the Exchange Act, nor shall such information be incorporated by reference into any of our other filings under the Exchange Act or the Securities Act.

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the S&P 500 Index and the S&P 1500 Application Software Index. The graph assumes an initial investment of $100 in our common stock at the market close on July 21, 2021, our initial trading day. Data for the S&P 500 Index and the S&P 1500 Application Software Index assumes reinvestment of dividends.



Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity, and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this report. This discussion and analysis reflects our historical results of operations and financial position. The discussion contains forward-looking statements that are based on the beliefs of management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements because of various factors, including those discussed elsewhere in this report, particularly Item 1A. "Risk Factors" and "Note Regarding Forward-Looking Statements" and other important factors disclosed previously in our other filings with the Securities and Exchange Commission ("SEC").

Unless we state otherwise or the context otherwise requires, the terms "we," "us," and "our" and similar references refer to the Company and its consolidated subsidiaries.

For comparisons of our results of operations for the fiscal years ended June 30, 2021 and 2020, refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021 filed with the SEC on September 2, 2021 ("2021 Form 10-K").

Overview

We are a leading Software-as-a-Service ("SaaS") provider of human capital management ("HCM") solutions for small and medium-sized businesses. Our unified, cloud-native platform is built to empower leaders by producing actionable, real-time insights to drive workforce optimization. Our comprehensive suite of solutions enables organizations to streamline administrative workflows and achieve regulatory compliance while serving as the single, secure system of record for all employee data. Our highly flexible, scalable, and extensible platform is augmented by industry-specific domain expertise and offers award-winning ease-of-use with an intuitive user experience and deep third-party integrations. More than 29,800 customers across all 50 states trust us to empower their leaders to build winning teams.

Our Business Model

Our revenue is almost entirely recurring in nature and largely attributable to the sale of SaaS subscriptions to our cloud-native HCM software platform. We typically generate revenue from customers on a per-employee-per-month ("PEPM") basis whereby our revenue is derived from the number of employees of a given customer, and the amount, type, and timing of products provided to a customer with respect to their employees. As a result, we increase our recurring revenue as we add more customers, and as our customers add more employees and purchase more product modules. Our highly recurring revenue model provides significant visibility into our future operating results. Recurring and other revenues are primarily revenues derived from the provision of our payroll, workforce management, HR-related cloud-based computing services and nonrefundable implementation fees, which represented over 99% of total revenue for the fiscal year ended June 30, 2022. In addition, we earn interest income on funds held for clients.

We have developed a robust organic sales and marketing engine and broad referral network of health insurance and retirement benefits brokers. We market and sell our solutions through a direct sales force, which is organized into field and inside sales teams based on customer size, geography, and industry. The number of unique visitors to our website drives brand awareness and demand generation. We generated more than 8.1 million unique visitors to our website during the fiscal year ended June 30, 2022. Our highly efficient and multi-pronged go-to-market strategy was a key driver of our growth, which enabled us to generate approximately $142 million and $115 million of total bookings for the fiscal years ended June 30, 2022 and June 30, 2021, respectively. Total bookings increased approximately 24% period-over-period for the fiscal year ended June 30, 2022.

The table below sets forth selected results of operations for the fiscal years ended June 30, 2022 and 2021.

(in thousands)	Fiscal Year Ended June 30, 2022		Fiscal Year Ended June 30, 2021	
Total Revenue	$	429,387	$	352,777
Loss from Operations	$	(139,620)	$	(89,333)
Operating Margin		(32.5)%		(25.3)%
Adjusted Operating Income*	$	47,491	$	47,987
Adjusted Operating Income Margin*		11.1 %		13.6 %
Net Loss	$	(108,017)	$	(72,482)

**Adjusted Operating Income and Adjusted Operating Income Margin are non-U.S. GAAP ("non-GAAP") financial measures. See Non-GAAP Financial Measures below for a definition of our non-GAAP measures and reconciliations to the most closely comparable U.S. GAAP measures.*

COVID-19 Pandemic Impact

Many of our prospective and existing customers' businesses were, and continue to be, impacted by the COVID-19 pandemic and related economic headwinds, which resulted in reduced customer employee headcount, temporary and permanent business closures, and/or delayed sales/starts. While the number of companies on our platform remained consistent, the number of our customers' employees on our platform declined 7% from March to April 2020. Because we charge our customers on a per-employee basis for certain services, decreases in headcount negatively impacted our recurring revenue beginning in the third quarter of fiscal year 2020. Since then, the number of our customers' employees on our platform recovered rapidly.

In March 2020, we began transitioning our employees to remote working and continue to embrace a virtual first approach. We have not experienced any material disruptions in our ability to operate our business during the pandemic as our business model enables us to service our clients remotely.

Paycor was among the leaders in the HCM industry to quickly pivot and deliver the technology and expert advice our customers needed to weather the pandemic. For example, we updated our product to facilitate Paycheck Protection Program ("PPP") loans and funding, partnered with customers to provide the reporting they needed to file for funding, and launched an immunization tracker that enabled customers to track and report on employees' vaccination status. Paycor also provided thought leadership and expert advice to leaders of small and medium-sized businesses on nearly every aspect of the pandemic, from COVID safety protocols to advice on how to transition to remote work environments, how to safely return to work, how to monitor and launch interventions in support of employee mental health and emotional well-being, as well as articles and webinars on federal and state HR compliance regulations.

Although macroeconomic conditions have improved, the duration and severity of the COVID-19 pandemic, and the long-term effects the pandemic will have on our customers, our operations and general economic conditions, remain uncertain and difficult to predict. Our business and financial performance may continue to be unfavorably impacted in future periods if a significant number of our customers are unable to continue as viable businesses or if they significantly reduce headcount, there is a reduction in business confidence and activity, a decrease in government and consumer spending, a decrease in HCM and payroll solutions spending by SMBs, or a decrease in growth in the overall market, among other factors.

Key Factors Affecting Our Performance

Our historical financial performance has been, and we expect our financial performance in the future to be, driven by our ability to:

Expand Our Sales Footprint to Add New Customers

Our current customer base represents a small portion of the U.S. market for HCM and payroll solutions. We believe there is substantial opportunity to continue to broaden our customer base, particularly in the 15 most populous metropolitan statistical areas in the United States (i.e. Tier 1 markets), by expanding our sales footprint. Our ability to do so will depend on several factors, including the effectiveness of our products, the relative pricing of our products, our competitors' offerings, and the effectiveness of our marketing efforts.

As of June 30, 2022 and 2021, we had approximately 29,800 and 28,000 customers, respectively, representing a period-over-period increase of 6.4%. We define a customer as a parent company grouping, which may include multiple subsidiary client accounts with separate taxpayer identification numbers. As of June 30, 2022 and 2021, we had approximately 47,100 and 44,000 client accounts, respectively. We also track client accounts as it provides an alternative measure of the scale of our business and customers. We believe the number of customer employees on our platform is a key indicator of the growth of our business. We define customer employees as the number of our customers' employees at the end of any particular period. As of June 30, 2022 and 2021, we had approximately 2.3 million and 2.0 million customer employees, respectively.

In addition, we are also focused on expanding our broker referral relationships to drive the acquisition of new customers. Insurance and benefits brokers are trusted advisors to SMBs and are influential in the HCM selection process. Brokers remained an integral part of our sales approach, with 42% in the fiscal year ended June 30, 2022 as compared to 40% in the fiscal year ended June 30, 2021.

Increase Product Penetration with Existing and New Customers

In recent years we have increasingly focused our product pricing strategy away from sales of individual products and solutions towards a simplified bundled pricing approach whereby we market multi-product offerings to our customers. We believe that this strategy addresses a key need for SMB customers, while also allowing us to better serve the needs of leaders through a more comprehensive product suite. This strategy has enabled us to effectively drive increased product penetration and PEPM growth at the initial point of sale, as well as stronger retention. Our "effective PEPM," which we define as recurring and other revenue for the period divided by the average number of customer employees, which we calculate as the sum of the number of customer employees at the end of each month over the period divided by the total number of months in the period, was approximately $16 and $15 for the fiscal years ended June 30, 2022 and 2021, respectively. We intend to advance this strategy by progressively expanding the breadth of features included in our product bundles. In addition to sales to new customers, there is a substantial opportunity within our existing customer base to cross-sell additional products from our portfolio, including Workforce Management, Benefits Administration and Talent Management.

Our ability to successfully increase revenue per customer is dependent upon several factors, including the number of employees working for our customers, the number of products purchased by each of our customers, our customers' satisfaction with our solutions and support, and our ability to add new products to our suite.

We believe our ability to retain and expand our existing customers' spending on our solutions is evidenced by our net revenue retention, which was approximately 98% and 88% for the fiscal years ended June 30, 2022 and 2021, respectively. We define net revenue retention as the current quarterly period recurring revenue for the cohort of customers at the beginning of the prior year quarterly period, divided by the recurring revenue in the prior year reporting period for that same cohort. In calculating the net revenue retention for a period longer than a quarter, such as a fiscal year, we use the weighted average of the retention rates (calculated in accordance with the preceding sentence) for each applicable quarter included in such period.

Net revenue retention has continued to trend favorably and is in line with historical pre-COVID-19 pandemic levels. Our net revenue retention had been negatively impacted during the COVID-19 pandemic by stay-at-home, business closure and other restrictive orders, which resulted in reduced employee headcount, temporary and permanent business closures, and delayed sales and starts with many of our customers.

Ongoing Product Innovation and Optimization

We believe that our product features and functionality are key differentiators of our offerings. We intend to continue to invest in research and development, particularly regarding the functionality of our platform, to sustain and advance our product leadership. For instance, in 2019 we released our Paycor Analytics and Scheduling products. In 2020 we built and released our compensation management product. In 2021 we launched on-demand pay (i.e. Wallet) and a full suite of talent management tools, including performance reviews, one-on-one coaching, objectives and key results ("OKRs") and structured goal setting. Additionally, in 2021, we released a facial recognition time clock promoting a touchless employee experience, introduced a new payroll-based journal reporting platform to simplify complex staffing reporting requirements for nursing facilities and released a predictive resignation feature providing leaders with actionable insights to identify the top drivers of employee resignation. In 2022, we have released the Paycor Developer Portal making it simple for our customers to connect the power of their people data across their business through improved integrations. By using Paycor's public APIs and events, companies can be immediately notified of changes and keep multiple systems in-sync. As a result of these and other product launches, we have increased the total list PEPM for our full suite of products to $42 as of June 30, 2022 from $39 as of June 30, 2021. Our effective PEPM was approximately $16 and $15 for the fiscal years ended June 30, 2022 and 2021, respectively. Our ability to innovate and introduce competitive new products is dependent on our ability to recruit and retain top technical talent and invest in research and development initiatives.

Components of Results of Operations

Factors Affecting the Comparability of our Results of Operations

IPO-Related Expenses

In connection with our IPO of our common stock, we incurred certain transaction-related expenses. These expenses include transaction bonuses, share-based compensation expense associated with two Long Term Incentive Plans ("LTIPs") and outstanding performance awards under the Pride Aggregator, L.P. Management Equity Plan ("MEP"), and expenses related to the redemption of our Series A Redeemable Preferred Stock. The specifics of the LTIPs, MEP and Series A Redeemable Preferred Stock are presented below.

We granted Long Term Incentive Plan units ("LTIP Units") under the Pride Aggregator, L.P. Top Talent Incentive Plan and Sales Equity Incentive Plan. The LTIP Units provided for, at our discretion, a cash or stock payment ("LTIP Payment") to participants on certain determination dates, if an IPO occurred and if the LTIP participant remained employed with us on such date. Our IPO resulted in a determination date, for which each LTIP participant became entitled to an LTIP Payment with respect to 20% of the LTIP participant's LTIP Units as of the IPO date and 20% on each of four subsequent payment dates that are six, twelve, eighteen and 24 months following the IPO date. As a result of our IPO, the LTIP Units converted into the entitlement to receive a fixed number of shares of our common stock, based on the IPO price. We settled such entitlements by issuing restricted stock units, which vest on the applicable payment dates and we will recognize approximately $47.6 million of compensation expense over the requisite service period relating to the LTIP Units.

Under the terms of the MEP, one-half of the MEP incentive units vest based on an associate's service time. Vesting for the second half of the MEP incentive units is established based on our performance relative to Apax's original invested amount, with the performance calculations defined in the plan, triggered by our IPO (implied performance condition). The MEP incentive units are subject to a floor amount established at the grant date, which acts as a participation threshold and permits the award to participate in distributions only to the extent the distribution amount for the units exceed the floor amount. We estimated the fair value of the MEP incentive units using the Monte Carlo simulation method.

The MEP time-based incentive units vest 25% on the first anniversary after the vesting commencement date and thereafter in twelve equal installments on each subsequent quarterly anniversary of the vesting commencement date, with 100% vesting of the time-based incentive units occurring on the fourth anniversary of the vesting commencement date. The MEP time-based incentive units are accounted for as equity awards and the compensation expense calculated based upon the fair market value of the MEP time-based incentive units at the grant date is recognized as the MEP time-based incentive units vest. As of June 30, 2022, there was approximately $3.6 million of unrecognized compensation expense associated with unvested MEP time-based incentive units. The unrecognized compensation expense associated with unvested MEP time-based incentive units outstanding at June 30, 2022 will be recognized over a weighted average period of 1.3 years from June 30, 2022.

As a result of our IPO, and due to an election by Apax Partners, the MEP performance-based incentive units converted to time-based incentive units ("Modified MEP Incentive Units"), with 25% vesting upon successive six month anniversary dates for the 24 months beginning on the date of the IPO. The conversion was treated as a modification for accounting purposes, and accordingly, we estimated fair value as of the modification date.

The Modified MEP Incentive Units are accounted for as equity awards and the compensation expense calculated based upon the fair value of the Modified MEP Incentive Units at the modification date is recognized as the Modified MEP Incentive Units vest. We estimate the fair value of the Modified MEP Incentive Units based upon the IPO price adjusted for a floor amount established at the grant date and other liquidation preferences in accordance with the terms of the MEP. As of June 30, 2022, there was approximately $26.2 million of unrecognized compensation expense associated with unvested Modified MEP Incentive Units. The unrecognized compensation expense associated with the unvested Modified MEP Incentive Units outstanding at June 30, 2022 will be recognized over a weighted average period of 1.1 years from June 30, 2022.

In connection with Apax Partners L.P.'s acquisition of us, Pride Midco, Inc., a direct subsidiary of Paycor HCM, Inc., issued $200 million in aggregate initial liquidation preference of the Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock accrued dividends at a rate of LIBOR plus 8.875%. The dividends were payable, or compounded, quarterly on March 31, June 30, September 30 and December 31 of each year. From the issue date through November 2, 2020, dividends were accrued and added to the then-prevailing liquidation preference of the Series A Redeemable Preferred Stock. From November 2, 2020 through the redemption date, we were required to pay 50% of the accrued dividends in cash.

The shares of Series A Redeemable Preferred Stock were accounted for as a redeemable noncontrolling interest in the mezzanine section of our consolidated balance sheet and were accreted using the effective interest method to the redemption value through the net income attributable to redeemable noncontrolling interest line within our consolidated statement of operations.

We redeemed the Series A Redeemable Preferred Stock in connection with, and using proceeds from, our IPO. The redemption price per share was equal to 101% of the liquidation preference, plus accrued and unpaid dividends to the redemption date, or approximately $260.0 million.

Basis of Presentation

Revenues

Recurring and Other Revenue

We derive our revenue from contractual agreements, which contain recurring and non-recurring service fees. The majority of our contracts are cancellable by the customer on 30 days' notice. We recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration that we are entitled to for those goods or services. Recurring revenue consists primarily of revenues derived from the provision of our payroll, workforce management, and HR-related cloud-based computing services. The performance obligations related to recurring services are generally satisfied monthly as services are provided, with fees charged and collected based on a PEPM or per-employee-per-payroll basis. Recurring revenue is generally recognized as the services are provided during each client's payroll period.

Other revenue and non-recurring services fees consist mainly of nonrefundable implementation fees, which involve onboarding and configuring the customer within our cloud-based platform. These nonrefundable implementation fees provide certain clients with a material right to renew the contract, with revenue deferred and recognized over the period to which the material right exists. This is generally a period of 24 months from finalization of onboarding, which typically concludes within three to six months of the original booking. Deferred revenue also includes an immaterial portion related to recurring subscription services where revenue is recognized over the subscription period. Deferred revenue for these nonrefundable upfront fees and recurring subscription services was $17.0 million as of June 30, 2022, with $19.5 million of revenue recognized for the fiscal year ended June 30, 2022. Deferred revenue for these nonrefundable upfront fees and recurring subscription services was $16.0 million as of June 30, 2021, with $19.0 million of revenue recognized for the fiscal year ended June 30, 2021.

We defer certain commission costs that meet the capitalization criteria. We also capitalize certain costs to fulfill a contract related to our proprietary products if they are identifiable, generate or enhance resources used to satisfy future performance obligations and are expected to be recovered. We utilize the portfolio approach to account for both the cost of obtaining a contract and the cost of fulfilling a contract.

Capitalized costs to fulfill a contract and cost to obtain a contract are amortized over the expected period of benefit, which is generally six years based on our average client life and other qualitative factors, including rate of technological changes. We do not incur any additional costs to obtain or fulfill contracts upon renewal. We recognize additional selling and commission costs and fulfillment costs when an existing client purchases additional services. The additional costs only relate to the additional services purchased and do not relate to the renewal of previous services. We continue to expense certain costs to obtain a contract and cost to fulfill a contract if those costs do not meet the capitalization criteria.

We expect recurring and other revenue to increase as we continue to add new customers and sell additional products to our existing customers. See "Critical Accounting Policies—Revenue Recognition" below.

Interest Income on Funds Held for Clients

We earn interest income on funds held for clients. We generally collect substantially all funds for employee payroll payments and related taxes in advance of remittance to employees and taxing authorities. Prior to remittance to employees and taxing authorities, we earn interest on these funds through demand deposit accounts with financial institutions with which we have automated clearing house arrangements. We also earn interest by investing a portion of funds held for clients in highly liquid, investment-grade marketable securities. We expect funds held for our clients to generally grow as the employees per customer increase and as we add customers. Interest income on funds held for clients will fluctuate based on market rates of demand deposit accounts, as well as the highly liquid, investment-grade marketable securities in which we invest the client funds.

Cost of Revenues

Cost of revenues includes costs relating to the provision of ongoing customer support and implementation activities, payroll tax filing, distribution of printed checks and other materials providing our payroll and other HCM solutions. These costs primarily consist of employee-related expenses for associates who service customers, as well as third-party processing fees, delivery costs, hosting costs, and bank fees associated with client fund transfers. Costs for recurring support are generally expensed as incurred, while such costs for onboarding and configuring our products for our customers are capitalized and amortized over a period of six years.

We amortized $17.3 million and $10.6 million of capitalized contract fulfillment costs during the fiscal years ended June 30, 2022 and 2021, respectively. We expect to realize increased amortization in future periods as the total capitalized contract fulfillment costs on our balance sheet increases.

We also capitalize a portion of our internal-use software costs including external direct costs of materials and services associated with developing or obtaining internal-use software and certain payroll and payroll-related costs for associates who are directly associated with internal-use software projects, which are then generally amortized over a period of three years into cost of revenues. We amortized $41.4 million and $59.9 million of capitalized internal-use and acquired software costs during the fiscal years ended June 30, 2022 and 2021, respectively.

Our cost of revenues is expected to increase in absolute dollars as we expand our customer base. However, in the long-term we expect cost of revenues to reduce as a percentage of total revenues as our business scales.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of employee-related expenses for our direct sales and marketing staff, marketing, advertising and promotion expenses, and other related costs. We capitalize certain commission costs related to new contracts or purchases of additional services by our existing customers and amortize such items over a period of six years.

We amortized $14.2 million and $8.9 million of capitalized contract acquisition costs during the fiscal years ended June 30, 2022 and 2021, respectively. We expect to realize increased amortization in future periods as the total capitalized contract acquisition costs on our balance sheet increases.

We seek to grow our number of new customers and upsell existing customers, and therefore our sales and marketing expense is expected to continue to increase in absolute dollars as we grow our sales organization and expand our marketing activities.

General and Administrative

General and administrative expenses consist primarily of employee-related costs for our administrative, finance, accounting, legal, enterprise technology and human resources departments. Additional expenses include consulting and professional fees, occupancy costs, insurance, and other corporate expenses.

We amortized $82.6 million and $79.5 million of intangible assets, excluding acquired software amortized through cost of revenues, during the fiscal years ended June 30, 2022 and 2021, respectively. The increase in amortization expense in the fiscal years ended June 30, 2022 is attributable to our asset acquisition in February 2021.

We expect our general and administrative expenses to increase in absolute dollars as we grow and scale our business.

Research and Development

Research and development expenses consist primarily of employee-related expenses for our software development and product management staff. Additional expenses include costs related to the development, maintenance, quality assurance and testing of new technologies, and ongoing refinement of our existing solutions. Research and development expenses, other than internal-use software costs qualifying for capitalization, including costs associated with preliminary project stage activities, training, maintenance, and all other post-implementation stage activities are expensed as incurred.

We capitalize a portion of our development costs related to internal-use software, which are amortized over a period of three years into cost of revenues. The timing of our capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development costs for the following periods:

	Fiscal Years Ended June 30,	
(in thousands)	**2022**	**2021**
Capitalized software	$ 29,831	$ 21,228
Research and development expenses	$ 43,140	$ 36,020

We expect to increase our research and development expenses in absolute dollars as we continue to broaden our product offerings and extend our technological leadership by investing in the development of new technologies and introducing them to new and existing customers.

Interest Expense

Interest expense consists primarily of interest payments and accruals relating to outstanding borrowings. We expect interest expense to vary each reporting period depending on the amount of outstanding borrowings and prevailing interest rates.

Other Income (Expense)

Other income (expense) generally consists of other income and expense items outside of our normal operations, such as realized gains or losses on the sale of certain positions of funds held for clients, gains or losses on the extinguishment of debt and expenses relating to our financing arrangements.

Results of Operations

The following table sets forth our consolidated statements of operations for the periods indicated. Refer to Item 8, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II of our 2021 Form 10-K, for a discussion and comparison of results for the fiscal years ended June 30, 2021 and June 30, 2020.

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021
Consolidated Statement of Operations Data:		
Revenues:		
Recurring and other revenue	$ 427,032	$ 350,956
Interest income on funds held for clients	2,355	1,821
Total revenues	429,387	352,777
Cost of revenues	168,188	154,487
Gross profit	261,199	198,290
Operating expenses:		
Sales and marketing	170,629	106,123
General and administrative	187,050	145,480
Research and development	43,140	36,020
Total operating expenses	400,819	287,623
Loss from operations	(139,620)	(89,333)
Interest expense	(541)	(2,541)
Other (expense) income	1,570	(1,420)
Loss before benefit for income taxes	(138,591)	(93,294)
Income tax benefit	(30,574)	(20,812)
Net loss	$ (108,017)	$ (72,482)

Comparison of the Fiscal Years Ended June 30, 2022 and June 30, 2021

Revenues

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	$ Change	% Change
Revenues:				
Recurring and other revenue	$ 427,032	$ 350,956	$ 76,076	22 %
Interest income on funds held for clients	2,355	1,821	534	29
Total revenues	$ 429,387	$ 352,777	$ 76,610	22 %

Total revenue for the fiscal years ended June 30, 2022 and 2021 was $429.4 million and $352.8 million, respectively. In the fiscal years ended June 30, 2022 and 2021, recurring and other revenue accounted for $427.0 million and $351.0 million, respectively. Additionally, interest income on funds held for clients accounted for $2.4 million and $1.8 million, respectively, for the fiscal years ended June 30, 2022 and 2021. Total revenues increased primarily as a result of a 6.4% increase in customers to approximately 29,800 at June 30, 2022 from approximately 28,000 at June 30, 2021, an increase in the average number of employees per customer and an increase in effective PEPM.

Interest income on funds held for clients increased primarily as a result of higher average daily balances for funds held due to the addition of new customers and higher average interest rates across our portfolio of debt-security investments. Average client funds balance for the fiscal years ended June 30, 2022 and 2021 were $931.7 million and $718.1 million, respectively.

Cost of Revenues

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	$ Change	% Change
Cost of revenues	$ 168,188	$ 154,487	$ 13,701	9 %
Percentage of total revenues	39 %	44 %		
Gross profit	$ 261,199	$ 198,290	$ 62,909	32 %
Percentage of total revenues	61 %	56 %		

Total cost of revenues for the fiscal years ended June 30, 2022 and 2021 were $168.2 million and $154.5 million, respectively. Our total cost of revenues increased primarily as a result of a $25.4 million increase in employee-related costs to support new customers, including $6.1 million of share-based compensation expense associated with our IPO, a $8.3 million increase in amortization expense relating to capitalized software, and a $6.7 million increase in amortization of deferred contract costs, partially offset by a $26.8 million decrease in amortization expense relating to software acquired in November 2018 which had fully amortized during the three months ended December 31, 2021.

Operating Expenses

Sales and Marketing

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	$ Change	% Change
Sales and marketing	$ 170,629	$ 106,123	$ 64,506	61 %
Percentage of total revenues	40 %	30 %		

Sales and marketing expenses for the fiscal years ended June 30, 2022 and 2021 were $170.6 million and $106.1 million, respectively. The increase in sales and marketing expense was primarily the result of a $53.8 million increase in employee-related costs, including $34.2 million of share-based compensation expense associated with our IPO and $4.0 million in additional advertising costs, both principally to expand our sales coverage, a $3.2 million increase in travel and event related expenses and a $2.5 million increase in professional services.

General and Administrative

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	$ Change	% Change
General and administrative	$ 187,050	$ 145,480	$ 41,570	29 %
Percentage of total revenues	44 %	41 %		

General and administrative expenses for the fiscal years ended June 30, 2022 and 2021 were $187.1 million and $145.5 million, respectively. The increase in general and administrative expenses was primarily driven by a $27.5 million increase in employee-related costs, including $20.3 million of share-based compensation expense associated with our IPO, a $6.9 million increase in facilities expense, including the loss upon exiting leases of certain facilities in March 2022, a $4.6 million increase in professional services, consulting fees and other IPO-related costs and a $3.2 million increase in intangible amortization expense primarily associated with an asset acquisition completed in February 2021, including the capitalization of subsequent earn out payments.

Research and Development

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	$ Change	% Change
Research and development	$ 43,140	$ 36,020	$ 7,120	20 %
Percentage of total revenues	10 %	10 %		

Research and development expenses for the fiscal years ended June 30, 2022 and 2021 were $43.1 million and $36.0 million, respectively. The increase in research and development expenses was primarily the result of a $6.7 million increase in share-based compensation expense associated with our IPO.

Interest Expense

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	$ Change	% Change
Interest expense	$ 541	$ 2,541	$ (2,000)	(79)%
Percentage of total revenues	<1 %	<1 %		

Interest expense for the fiscal years ended June 30, 2022 and 2021 was $0.5 million and $2.5 million, respectively. The decrease in interest expense was primarily the result of a decrease in outstanding borrowings.

Other income (expense)

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021	$ Change	% Change
Other income (expense)	$ 1,570	$ (1,420)	$ 2,990	(211)%

Other income for the fiscal year ended June 30, 2022 was $1.6 million compared to other expense of $1.4 million for the fiscal year ended June 30, 2021. Other income for the fiscal year ended June 30, 2022 primarily consists of $1.4 million relating to the recognition of income deferred on an installment sale due to the receipt of the remaining proceeds. Other expense for the fiscal year ended June 30, 2021 primarily consists of $2.2 million relating to the write-off of debt acquisition costs and third-party costs associated with entering into a new credit facility in June 2021 and $0.8 million in unrealized gains resulting from changes in foreign currency rates.

Income tax benefit

Income tax benefit for the fiscal years ended June 30, 2022 and 2021 was $30.6 million and $20.8 million, respectively, reflecting effective tax rates for the periods of 22.1% and 22.3%, respectively. The increase in tax benefit was due to an increase in net loss, transaction costs and research and development tax credits.

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their U.S. GAAP results. The non-GAAP financial information is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with U.S. GAAP and may be different from similarly titled non-GAAP measures used by other companies. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with U.S. GAAP. Investors are encouraged to review the related U.S. GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable U.S. GAAP financial measures.

Adjusted Gross Profit and Adjusted Gross Profit Margin

We define Adjusted Gross Profit as gross profit before amortization of intangible assets, stock-based compensation expenses, and certain corporate expenses, in each case that are included in costs of recurring revenues. We define Adjusted Gross Profit Margin as Adjusted Gross Profit divided by total revenues.

We use Adjusted Gross Profit and Adjusted Gross Profit Margin to understand and evaluate our core operating performance and trends. We believe these metrics are useful measures to us and to our investors to assist in evaluating our core operating performance because it provides consistency and direct comparability with our past financial performance and between fiscal periods, as the metrics eliminate the effects of variability of items such as stock-based compensation expense and amortization of intangible assets, which are non-cash expenses that may fluctuate for reasons unrelated to overall operating performance.

Adjusted Gross Profit and Adjusted Gross Profit Margin have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP and should not be considered as replacements for gross profit and gross profit margin, as determined by U.S. GAAP, or as measures of our profitability. We compensate for these limitations by relying primarily on our U.S. GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Gross Profit was $287.2 million and $244.9 million, or 66.9% and 69.4% of total revenue, for the fiscal years ended June 30, 2022 and 2021, respectively. Adjusted Gross Profit increased for the fiscal year ended June 30, 2022, primarily driven by the increase in revenue from customer growth, partially offset by additional employee-related costs to support new customers, amortization of capitalized software and amortization of costs to fulfill contracts within cost of revenues.

	Fiscal Year Ended	
(in thousands)	**June 30, 2022**	**June 30, 2021**
Gross Profit*	$ 261,199	$ 198,290
Gross Profit Margin	*60.8 %*	*56.2 %*
Amortization of intangible assets	19,313	46,136
Stock-based compensation expense	6,649	516
Liability incentive award compensation expense	—	(16)
Corporate adjustments	—	—
Adjusted Gross Profit*	$ 287,161	$ 244,926
Adjusted Gross Profit Margin	*66.9 %*	*69.4 %*

* *Gross Profit and Adjusted Gross Profit are burdened by depreciation expense of $2.6 million and $2.6 million for the fiscal years ended June 30, 2022 and 2021, respectively. Gross Profit and Adjusted Gross Profit are burdened by amortization of capitalized software of $22.1 million and $13.8 million for the fiscal years ended June 30, 2022 and 2021, respectively. Gross Profit and Adjusted Gross Profit are burdened by amortization of deferred contract costs of $17.3 million and $10.6 million for the fiscal years ended June 30, 2022 and 2021, respectively.*

Adjusted Operating Income

We define Adjusted Operating Income as loss from operations before amortization of acquired intangible assets, stock-based award and liability incentive award compensation expenses, exit cost due to exiting leases of certain facilities and other certain corporate expenses, such as costs related to acquisitions. We define Adjusted Operating Income Margin as Adjusted Operating Income divided by total revenues.

We use Adjusted Operating Income and Adjusted Operating Income Margin to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operating plans. We believe that Adjusted Operating Income and Adjusted Operating Income Margin facilitate comparison of our operating performance on a consistent basis between periods, and when viewed in combination with our results prepared in accordance with U.S. GAAP, help provide a broader picture of factors and trends affecting our results of operations. While the amortization expense relating to intangible assets is excluded from Adjusted Operating Income, the revenue related to such intangible assets is reflected in Adjusted Operating Income as these assets contribute to our revenue generation.

Adjusted Operating Income and Adjusted Operating Income Margin have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under U.S. GAAP. Because of these limitations, Adjusted Operating Income and Adjusted Operating Income Margin should not be considered as replacements for operating loss and operating loss margin, as determined by U.S. GAAP, or as measures of our profitability. We compensate for these limitations by relying primarily on our U.S. GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Operating Income was $47.5 million and $48.0 million for the fiscal years ended June 30, 2022 and 2021, respectively. Adjusted Operating Income decreased slightly for the fiscal year ended June 30, 2022, primarily driven by continued investment in employee-related costs to support new customers, expand our sales coverage, and develop our products, as well as increased amortization related to capitalized software and deferred contract costs and costs associated with becoming a public company, partially offset by an increase in revenue.

	Fiscal Year Ended	
(in thousands)	**June 30, 2022**	**June 30, 2021**
Loss from Operations	$ (139,620)	$ (89,333)
Operating Margin	*(32.5)%*	*(25.3)%*
Amortization of intangible assets	101,959	125,590
Stock-based compensation expense	71,376	4,172
Liability incentive award compensation expense	—	(189)
Loss on lease exit*	9,112	—
Corporate adjustments**	4,664	7,747
Adjusted Operating Income	$ 47,491	$ 47,987
Adjusted Operating Income Margin	*11.1 %*	*13.6 %*

* *Represents exit cost due to exiting leases of certain facilities.*

** *Corporate adjustments for the fiscal year ended June 30, 2022 relate to certain restructuring costs of $0.4 million, transaction expenses and costs associated with the Paltech Solutions, Inc. ("7Geese") Acquisition and other transactions totaling $0.2 million, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of $3.1 million and costs associated with a secondary offering completed in October 2021 ("October 2021 Secondary Offering") of $1.0 million. Corporate adjustments for the fiscal year ended June 30, 2021 relate to certain transition costs of the new executive leadership team and closure of a standalone facility $1.0 million, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of $5.5 million, transaction expenses and costs associated with the 7Geese Acquisition totaling $0.7 million, and costs related to implementing certain expense saving and other initiatives related to the COVID-19 pandemic totaling $0.5 million.*

Adjusted Operating Expenses

We define Adjusted Sales and Marketing expense as sales and marketing expenses before stock-based award and liability incentive award compensation expenses and other certain corporate expenses. We define Adjusted General and Administrative expense as general and administrative expenses before amortization of acquired intangible assets, stock-based award and liability incentive award compensation expenses, exit cost due to exiting leases of certain facilities and other certain corporate expenses. We define Adjusted Research and Development expense as research and development expenses before stock-based award and liability award compensation expenses and other certain corporate expenses.

We use Adjusted Sales and Marketing expense, Adjusted General and Administrative expense and Adjusted Research and Development expense (collectively, "Adjusted Operating Expenses") to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operating plans. We believe that Adjusted Operating Expenses facilitate comparison of our operating performance on a consistent basis between periods, and when viewed in combination with our results prepared in accordance with U.S. GAAP, help provide a broader picture of factors and trends affecting our results of operations.

Adjusted Operating Expenses have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under U.S. GAAP. Because of these limitations, Adjusted Operating Expenses should not be considered as replacements for operating expenses, as determined by U.S. GAAP. We compensate for these limitations by relying primarily on our U.S. GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Sales and Marketing expense was $135.1 million and $103.7 million for the fiscal years ended June 30, 2022 and 2021. Adjusted Sales and Marketing expenses increased for the fiscal year ended June 30, 2022, primarily driven by expanding our sales coverage and an increase in amortization of costs to obtain contracts.

Adjusted General and Administrative expense was $68.2 million and $57.3 million for the fiscal years ended June 30, 2022 and 2021. Adjusted General and Administrative expenses increased for the fiscal year ended June 30, 2022, primarily driven by additional employee-related costs and professional services, consulting fees and other related costs primarily associated with becoming a public company.

Adjusted Research and Development expense was $36.4 million and $35.9 million for the fiscal years ended June 30, 2022 and 2021, respectively. Adjusted Research and Development expenses increased for the fiscal year ended June 30, 2022, primarily driven by an increase in licensing fees, partially offset by a decrease in employee-related costs due to an increase in capitalization of qualifying costs.

	Fiscal Year Ended	
(in thousands)	June 30, 2022	June 30, 2021
Sales and Marketing expense	$ 170,629	$ 106,123
Stock-based compensation expense	(35,507)	(1,359)
Liability incentive award compensation expense	—	90
Corporate adjustments*	(53)	(1,120)
Adjusted Sales and Marketing expense	$ 135,069	$ 103,734
General and Administrative expense	$ 187,050	$ 145,480
Amortization of intangible assets	(82,646)	(79,454)
Stock-based compensation expense	(22,467)	(2,207)
Liability incentive award compensation expense	—	44
Loss on lease exit**	(9,112)	—
Corporate adjustments***	(4,611)	(6,515)
Adjusted General and Administrative expense	$ 68,214	$ 57,348
Research and Development expense	$ 43,140	$ 36,020
Stock-based compensation expense	(6,753)	(90)
Liability incentive award compensation expense	—	39
Corporate adjustments****	—	(112)
Adjusted Research and Development expense	$ 36,387	$ 35,857

* *Corporate adjustments for the fiscal year ended June 30, 2022 relate to costs associated with becoming a public company. Corporate adjustments for the fiscal year ended June 30, 2021 relate to certain costs related to the transition of the new executive leadership team and closure of a standalone facility of $0.6 million, as well as costs related to implementing certain expense saving and other initiatives as a result of the COVID-19 pandemic totaling $0.5 million.*

** *Represents exit cost due to exiting leases of certain facilities.*

*** *Corporate adjustments for the fiscal year ended June 30, 2022 relate to certain restructuring costs of $0.4 million, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of $3.0 million, transaction expenses and costs associated with the 7Geese Acquisition and other transactions totaling $0.2 million and costs associated with the October 2021 Secondary Offering of $1.0 million. Corporate adjustments for the fiscal year ended June 30, 2021 relate to certain transition costs of the new executive leadership team and closure of a standalone facility of $0.4 million, as well as costs* *associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs, of $5.5 million, and transaction expenses and costs associated with the 7Geese Acquisition totaling $0.6 million.*

**** *Corporate adjustments for the fiscal year ended June 30, 2021 relate to costs associated with the 7Geese Acquisition.*

Adjusted Net Income Attributable to Paycor HCM, Inc. and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share

We define Adjusted Net Income Attributable to Paycor HCM, Inc. as loss before benefit for income tax after adjusting for amortization of acquired intangible assets, stock-based award and liability incentive award compensation expenses, gain or loss on the extinguishment of debt, exit cost due to exiting leases of certain facilities and other certain corporate expenses, such as costs related to acquisitions, all of which are tax effected applying an adjusted effective tax rate. We define Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share as Adjusted Net Income Attributable to Paycor HCM, Inc. divided by adjusted shares outstanding. Adjusted shares outstanding includes potentially dilutive securities excluded from the U.S. GAAP dilutive net loss per share calculation.

We use Adjusted Net Income Attributable to Paycor HCM, Inc. and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operating plans. We believe that Adjusted Net Income Attributable to Paycor HCM, Inc. and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share facilitate comparison of our operating performance on a consistent basis between periods, and when viewed in combination with our results prepared in accordance with U.S. GAAP, help provide a broader picture of factors and trends affecting our results of operations. While the amortization expense relating to intangible assets is excluded from Adjusted Net Income Attributable to Paycor HCM, Inc., the revenue related to such intangible assets is reflected in Adjusted Net Income Attributable to Paycor HCM, Inc. as these assets contribute to our revenue generation.

Adjusted Net Income Attributable to Paycor HCM, Inc. and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share have limitations as analytical tools, and you should not consider these in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Because of these limitations, Adjusted Net Income Attributable to Paycor HCM, Inc. should not be considered as a replacement for Net Loss Attributable to Paycor HCM, Inc., and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share should not be considered as a replacement for diluted net loss attributable to Paycor HCM, Inc. per share, as determined by U.S. GAAP, or as a measure of our profitability. We compensate for these limitations by relying primarily on our U.S. GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Net Income Attributable to Paycor HCM, Inc. was $35.9 million and $35.6 million for the fiscal years ended June 30, 2022 and 2021, respectively. Adjusted Net Income Attributable to Paycor HCM, Inc. increased for the fiscal year ended June 30, 2022, primarily driven by an increase in revenue, partially offset by continued investment in employee-related costs to support new customers, expand our sales coverage, and develop our products, as well as increased amortization related to capitalized software and deferred contract costs and costs associated with becoming a public company.

(in thousands)	Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021
Net loss before benefit for income taxes	$ (138,591)	$ (93,294)
Loss on debt amendment	35	2,195
Amortization of intangible assets	101,959	125,590
Gain on installment sale	(1,359)	—
Stock-based compensation expense	71,376	4,172
Liability incentive award compensation expense	—	(189)
Loss on lease exit*	9,112	—
Corporate adjustments**	4,664	7,747
Non-GAAP adjusted income before applicable income taxes	47,196	46,221
Income tax effect on adjustments***	(11,327)	(10,631)
Adjusted Net Income Attributable to Paycor HCM, Inc.	$ 35,869	$ 35,590
Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share	$ 0.21	$ 0.23
Adjusted shares outstanding****	173,774,540	152,074,406

** Represents exit cost due to exiting leases of certain facilities.*

*** Corporate adjustments for the fiscal year ended June 30, 2022 relate to certain restructuring costs of $0.4 million, transaction expenses and costs associated with the 7Geese Acquisition and other transactions totaling $0.2 million, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of $3.1 million and costs associated with the October 2021 Secondary Offering of $1.0 million. Corporate adjustments for the fiscal year ended June 30, 2021 relate to certain transition costs of the new executive leadership team and closure of a standalone facility $1.0 million, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of $5.5 million, transaction expenses and costs associated with the 7Geese Acquisition totaling $0.7 million, and costs related to implementing certain expense saving and other initiatives related to the COVID-19 pandemic totaling $0.5 million.*

**** Non-GAAP adjusted income before applicable income taxes is tax effected using an adjusted effective tax rate of 24.0% for the fiscal year ended June 30, 2022 and 23.0% for the fiscal year ended June 30, 2021.*

***** The adjusted shares outstanding for the fiscal year ended June 30, 2022 assume the conversion of the Series A Preferred Stock as if it would have occurred on July 1, 2021, based on the if-converted method and include potentially dilutive securities that are excluded from U.S. GAAP dilutive net income per share calculation because including them would have an anti-dilutive effect. The adjusted shares outstanding for the fiscal year ended June 30, 2021 assume the conversion of the Series A Preferred Stock as if it would have occurred on the December 29, 2020 and January 20, 2021 issuance dates, respectively, based on the if-converted method.*

Liquidity and Capital Resources

General

As of June 30, 2022, our principal sources of liquidity were cash and cash equivalents totaling $133.0 million, which was held for working capital purposes, as well as $200.0 million of borrowing capacity available under our revolving credit facility, described further below. As of June 30, 2022, our cash and cash equivalents principally included demand deposit and money market accounts. We expect our operating cash flows to further improve as we increase our operational efficiency and experience economies of scale.

We have historically financed our operations primarily through cash received from operations and debt financing and, more recently, with the issuance of equity in our IPO. We believe our existing cash and cash equivalents, borrowings available under our revolving credit facility and cash provided by sales of our solutions and services will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, and the introduction of new and enhanced products and services offerings. In the future, we may enter into arrangements to acquire or invest in complementary businesses, services, and technologies, including intellectual property rights.

We may be required to seek additional equity or debt financing. If additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies, this could reduce our ability to compete successfully and harm our results of operations.

The majority of the Company’s recurring fees are satisfied over time as the services are provided and invoiced by the customer payroll processing period or by month. The Company recognizes deferred revenue for nonrefundable upfront fees as well as for subscription services related to certain ancillary products invoiced prior to the satisfaction of the performance obligation. As of June 30, 2022, we had deferred revenue of $17.0 million, of which $11.7 million was recorded as a current liability and is expected to be recorded as revenue in the next twelve months, provided all other revenue recognition criteria have been met.

New Senior Secured Credit Facility

In June 2021, Paycor, Inc. entered into a new credit agreement (the “2021 Credit Agreement”) with PNC Bank National Association, as administrative agent and collateral agent, providing a $100.0 million senior secured revolving credit facility (the “2021 Credit Facility”). The 2021 Credit Facility includes an “accordion feature” that allows us, under certain circumstances, to increase the size of the 2021 Credit Facility by an additional principal amount of up to $300.0 million, with a resulting maximum principal amount of $400.0 million, subject to the participating lenders electing to increase their commitments or new lenders being added to the 2021 Credit Agreement.

On September 3, 2021, Paycor, Inc., Pride Guarantor, Inc. and certain other subsidiaries of Paycor HCM, Inc. entered into an amendment (“2021 Amendment”) to the 2021 Credit Agreement. The 2021 Amendment increased the size of the 2021 Credit Facility from $100.0 million to $200.0 million. No other significant terms of the 2021 Credit Agreement were changed in connection with the 2021 Amendment.

The 2021 Credit Facility will mature on June 11, 2026.

The 2021 Credit Facility contains financial covenants, which are reviewed for compliance on a quarterly basis, including a total leverage ratio financial covenant of 3.50 to 1.00 and an interest coverage ratio financial covenant of 3.00 to 1.00. As of June 30, 2022, we were in compliance with all covenants.

Cash Flows

The following table presents a summary of our consolidated cash flows from operating, investing and financing activities for the fiscal years ended June 30, 2022 and 2021.

	Fiscal Year Ended	
(in thousands)	**June 30, 2022**	**June 30, 2021**
Net cash provided by operating activities	$ 24,351	$ 10,773
Net cash used in investing activities	(84,550)	(52,581)
Net cash provided by financing activities	1,183,031	55,316
Impact of foreign exchange on cash and cash equivalents	91	44
Net change in cash and cash equivalents	1,122,923	13,552
Cash and cash equivalents at beginning of period	560,000	546,448
Cash and cash equivalents at end of period	$ 1,682,923	$ 560,000

Operating Activities

Net cash provided by operating activities was $24.4 million and $10.8 million for the fiscal years ended June 30, 2022 and 2021, respectively. The change in operating activities for the fiscal year ended June 30, 2022 reflects an increase in adjustments to add back non-cash items, partially offset by an increase in net loss and a decrease in changes in assets and liabilities.

Investing Activities

Net cash used in investing activities was $84.6 million and $52.6 million, for the fiscal years ended June 30, 2022 and 2021, respectively. The change in investing activities for the fiscal year ended June 30, 2022 was primarily attributable to the timing of proceeds and purchases within our client funds portfolio, partially offset by the acquisition of 7Geese in September 2020.

Financing Activities

Net cash provided by financing activities was $1,183.0 million and $55.3 million for the fiscal years ended June 30, 2022 and 2021, respectively. The change in financing activities for the fiscal year ended June 30, 2022 was primarily attributable to an increase in funds held to satisfy client funds obligations as well as proceeds from the issuance of common stock sold in our IPO, net of offering costs, partially offset by cash used for the redemption of our Series A Redeemable Preferred Stock and increased net repayments of long-term debt.

Contractual Obligations and Commitments

The following table sets forth the amounts of our significant contractual obligations and commitments with definitive payment terms as of June 30, 2022:

(in thousands)	Total	Less than 1 Year	1-3 years	3-5 Years	More than 5 years
Revolving credit facility	$ —	$ —	$ —	$ —	$ —
Operating lease obligations	26,709	6,678	9,389	7,752	2,890
Capital lease obligations	986	323	619	44	—
Purchase obligations (1)	26,832	13,979	8,153	4,700	—
Total	$ 54,527	$ 20,980	$ 18,161	$ 12,496	$ 2,890

(1) Purchase obligations include our estimate of the minimum outstanding commitments under purchase orders to buy goods and services and legally binding contractual arrangements with future payment obligations. These obligations primarily include sponsorship agreements, software licensing, and support services.

Impact of Inflation

While inflation may impact our revenues and costs of revenues, we believe the effects of inflation, if any, on our results of operations and financial condition have not been significant. Nonetheless, if our costs become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. There can be no assurance that our results of operations and financial condition will not be materially impacted by inflation in the future.

In the event Federal Reserve raises interest rates to combat inflation, we could potentially benefit from increased interest income on our funds held for clients balance invested at higher interest rates.

Indemnification Agreements

In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify customers, including, but not limited to, losses arising out of the breach of such agreements, services to be provided by us or from intellectual property infringement claims made by third parties. In addition, in connection with the completion of the IPO, we entered into indemnification agreements with our directors and certain officers and associates that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or associates. No demands have been made upon us to provide indemnification under such agreements and there are no claims that we are aware of that could have a material effect on our consolidated balance sheets, consolidated statements of operations and comprehensive loss, or consolidated statements of cash flows.

Off-Balance Sheet Arrangements

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

JOBS Act

We qualify as an “emerging growth company” pursuant to the provisions of the JOBS Act. For as long as we are an “emerging growth company,” we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding advisory “say-on-pay” votes on executive compensation and shareholder advisory votes on golden parachute compensation.

The JOBS Act also permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to “opt-in” to this extended transition period for complying with new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that comply with such new or revised accounting standards on a non-delayed basis.

Critical Accounting Policies and Significant Judgments and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of assets and liabilities and the recognition of income and expenses. Management considers these accounting policies to be critical accounting policies. The estimates and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are described below. Refer to Note 2 to our consolidated financial statements: “Summary of Significant Accounting Policies” included elsewhere in this report for more detailed information regarding our critical accounting policies.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to clients in an amount that reflects the consideration we are entitled to for those goods or services. We derive our revenue from contracts predominantly from recurring and non-recurring service fees. The majority of our agreements are generally cancellable by the client on 30 days’ notice.

Recurring fees are derived from payroll, workforce management, and HR-related cloud-based computing services. The majority of our recurring fees are satisfied over time as the services are provided during each client's payroll period. The performance obligations related to payroll services are delivered based upon the payroll frequency of the client with the fee charged and collected based on a per-employee-per-month or per employee-per-payroll basis. The performance obligations related to workforce management and HR-related services are generally satisfied each month with the fee charged and collected based on a per-employee-per-month basis. For subscription-based fees, which can include payroll, workforce management, and HR-related services, we recognize the applicable recurring fees each month with the fee charged and collected based on a per-employee-per-month basis.

Non-recurring service fees consist mainly of nonrefundable implementation fees. The implementation activities involve setting the client up and loading data into our cloud-based modules. We have determined that the nonrefundable upfront fees provide certain clients with a material right to renew the contract beyond the normal 30-day contractual period without payment of an additional upfront implementation fee. Implementation fees are deferred and recognized as revenue over the period to which the material right exists, which is the period the client is expected to benefit from not having to pay an additional nonrefundable implementation fee upon renewal of the service.

Goodwill and Intangible Assets, Net

An impairment of goodwill is recognized when the carrying amount of assets exceeds their implied fair value. The process of evaluating the potential impairment is subjective and requires the application of judgment. We perform an annual impairment review of goodwill in our fiscal fourth quarter and additional impairment reviews when events and circumstances indicate it is more likely than not that an impairment may have occurred.

In evaluating goodwill for impairment, we have the option to first perform a qualitative assessment to determine whether further impairment testing is necessary or to perform a quantitative assessment by comparing the fair value of our single reporting unit to its carrying amount, including goodwill. Under the qualitative assessment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. Qualitative factors include macroeconomic conditions, industry and market conditions, cost factors, and overall financial performance, among others.

If under the quantitative assessment, the fair value of a reporting unit is less than its carrying amount, then goodwill is written down for the amount by which the carrying amount exceeds the fair value. Fair values of the reporting units are estimated using a weighted methodology considering the output from both the income and market approaches. The income approach incorporates the use of a discounted cash flow ("DCF") analysis. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market shares, sales volumes and prices, costs to produce, tax rates, capital spending, discount rate, weighted average cost of capital, terminal values and working capital changes. The cash flow forecasts are based on approved strategic operating plans. The market approach is performed using the Guideline Public Companies method which is based on earnings multiple data.

We elected to perform a qualitative assessment during the fiscal years ended June 30, 2022 and 2021 and determined for both periods that it is not more likely than not that the fair value is less than its carrying amount.

We evaluate other intangible assets, principally consisting of acquired software, customer relationships and trade names, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Events or changes in circumstances that could result in an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends. If an event occurs that would cause us to revise our estimates and assumptions used in analyzing the value of our other intangible assets, the revision could result in a non-cash impairment charge that could have a material impact on our financial results.

Stock-Based Compensation

We recognize stock-based compensation expense for all stock-based awards made to associates and directors based on the grant date fair value of the awards. Stock-based compensation expense for time-based awards is determined based on the grant-date fair value and is recognized on a straight-line basis over the requisite service period of the award, which is typically the vesting term of the award. Stock-based compensation expense for awards subject to market and performance conditions is determined based on the grant-date fair value and is recognized on a graded vesting basis over the term of the award once it is probable that the performance conditions will be met.

For periods prior to the IPO, we estimated the grant date fair value using a Monte Carlo simulation model. As our equity was not publicly traded, there was no history of market prices for our equity. Thus, estimating the grant date fair value required us to make assumptions, including the value of the Company's equity, expected volatility, expected term and the expected risk-free rate of return.

For periods subsequent to the IPO, we establish the grant date fair value of RSUs based on the fair value of our underlying common stock. We estimate the grant date fair value of stock options, including common stock purchased as a part of our Employee Stock Purchase Plan ("ESPP"), using the Black-Scholes option pricing model, which requires management to make assumptions with respect to the fair value of our award on the grant date, including the expected term of the award, the expected volatility of our stock calculated based on a period of time generally commensurate with the expected term of the award, the expected risk-free rate of return, and expected dividend yields of our stock.

Adoption of Accounting Pronouncements

For a description of recently issued accounting standards not yet adopted, see Note 2 to our consolidated financial statements: “Summary of Significant Accounting Policies —Pending Accounting Pronouncements” appearing elsewhere in this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure due to potential changes in inflation or interest rates. We do not hold financial instruments for trading purposes.

Foreign Currency Exchange Risk

The functional currencies of our foreign subsidiaries are the respective local currencies. Most of our sales are denominated in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, which are primarily in the United States, Canada, and Serbia. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments. During the fiscal year ended June 30, 2022, a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our consolidated financial statements.

Interest Rate Risk

As of June 30, 2022, we have cash and cash equivalents totaling $133.0 million and funds held for clients of $1,715.9 million. We deposit our cash and cash equivalents and significant portions of our funds held for clients in demand deposit accounts and money market funds with various financial institutions. We invest funds held for clients in debt-security investments classified as available-for-sale consisting of U.S. Treasury Notes, direct obligations of U.S. government agencies such as the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Farm Credit Bank, high grade corporate bonds, FDIC insured certificates of deposit, and other short-term and long-term investments.

Our cash and cash equivalents and funds held for clients are subject to market risk due to changes in interest rates. A decline in interest rates would decrease our interest income earned. Additionally, an increase in interest rates may cause the market value of our investments in fixed-rate available-for-sale securities to decline. We may incur losses on our fixed-rate available-for-sale securities if we are forced to sell some or all of these securities at lower market values. However, as a result of us classifying all marketable securities as available-for-sale, no gains or losses are recognized due to changes in interest rates until such securities are sold or decreases in fair value are deemed to be other-than-temporary. We have not recorded any other-than-temporary impairment losses to date. A 100-basis point change in interest rates would have had an immaterial effect on the market value of our available-for-sale securities as of June 30, 2022.

We are also exposed to changing Eurodollar-based interest rates. Interest rate risk is highly sensitive due to many factors, including E.U. and U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. Our 2021 Credit Facility carries interest at LIBOR, as administered by the Intercontinental Exchange (“CE”) Benchmark Administration for deposits in dollar, plus the applicable margin.

At June 30, 2022, we had no outstanding debt under our 2021 Credit Facility and, as a result, a 100-basis point increase or decrease in market interest rates over a twelve-month period would result in no change to interest expense.

Item 8. Financial Statements and Supplementary Data

Paycor HCM, Inc. and Subsidiaries

Index to Audited Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Paycor HCM, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Paycor HCM, Inc. and Subsidiaries (the "Company") as of June 30, 2022, and 2021, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2022, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2015.

Cincinnati, Ohio
August 24, 2022

Paycor HCM, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share amounts)

	June 30, 2022	June 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 133,041	$ 2,634
Accounts receivable, net	21,511	16,472
Deferred contract costs	37,769	24,503
Prepaid expenses	9,421	6,586
Other current assets	1,874	1,516
Current assets before funds held for clients	203,616	51,711
Funds held for clients	1,715,916	670,315
Total current assets	1,919,532	722,026
Property and equipment, net	31,675	41,080
Goodwill	750,155	750,802
Intangible assets, net	263,069	355,323
Capitalized software, net	40,002	31,310
Long-term deferred contract costs	125,705	90,880
Other long-term assets	1,179	19,532
Total assets	$ 3,131,317	$ 2,010,953
Liabilities, Redeemable Noncontrolling Interest and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 13,945	$ 11,978
Accrued expenses and other current liabilities	13,907	15,782
Accrued payroll and payroll related expenses	44,592	32,305
Deferred revenue	11,742	11,948
Current liabilities before client fund obligations	84,186	72,013
Client fund obligations	1,719,047	669,960
Total current liabilities	1,803,233	741,973
Deferred income taxes	31,895	76,138
Other long-term liabilities	11,458	16,680
Long-term debt, net	—	49,100
Total liabilities	1,846,586	883,891
Commitments and contingencies (Note 18)		
Redeemable noncontrolling interest	—	248,423
Stockholders' equity:		
Common stock $0.001 par value per share, 500,000,000 shares authorized, 174,909,539 shares outstanding at June 30, 2022 and 141,097,740 shares outstanding at June 30, 2021	175	141
Treasury stock, at cost, 10,620,260 shares at June 30, 2022 and June 30, 2021	(245,074)	(245,074)
Preferred stock, $0.001 par value, 50,000,000 shares authorized, — shares outstanding at June 30, 2022 and June 30, 2021	—	—
Series A preferred stock, $0.001 par value, 10,000 shares authorized, — and 7,715 shares outstanding at June 30, 2022 and June 30, 2021, respectively	—	262,772
Additional paid-in capital	1,926,800	1,133,399
Accumulated deficit	(395,389)	(275,751)
Accumulated other comprehensive (loss) income	(1,781)	3,152
Total stockholders' equity	1,284,731	878,639
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$ 3,131,317	$ 2,010,953

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Paycor HCM, Inc. and Subsidiaries
Consolidated Statements of Operations
(in thousands, except share amounts)

	Fiscal Year Ended June 30,		
	2022	2021	2020
Revenues:			
Recurring and other revenue	$ 427,032	$ 350,956	$ 317,620
Interest income on funds held for clients	2,355	1,821	10,289
Total revenues	429,387	352,777	327,909
Cost of revenues	168,188	154,487	139,683
Gross profit	261,199	198,290	188,226
Operating expenses:			
Sales and marketing	170,629	106,123	99,998
General and administrative	187,050	145,480	137,071
Research and development	43,140	36,020	45,866
Total operating expenses	400,819	287,623	282,935
Loss from operations	(139,620)	(89,333)	(94,709)
Other (expense) income:			
Interest expense	(541)	(2,541)	(1,780)
Other	1,570	(1,420)	9,004
Loss before benefit for income taxes	(138,591)	(93,294)	(87,485)
Income tax benefit	(30,574)	(20,812)	(20,182)
Net loss	(108,017)	(72,482)	(67,303)
Less: Accretion of redeemable noncontrolling interests	11,621	24,438	22,890
Net loss attributable to Paycor HCM, Inc.	$ (119,638)	$ (96,920)	$ (90,193)
Basic and diluted net loss attributable to Paycor HCM, Inc. per share	$ (0.69)	$ (0.66)	$ (0.59)
Weighted average common shares outstanding:			
Basic and diluted	172,636,523	146,364,225	151,718,000

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Paycor HCM, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss
(in thousands)

	Fiscal Year Ended June 30,		
	2022	2021	2020
Net loss	$ (108,017)	$ (72,482)	$ (67,303)
Other comprehensive (loss) income, net of tax:			
Unrealized (loss) gain on foreign currency translation	(297)	425	—
Unrealized (loss) gain on available-for-sale securities, net of tax	(2,683)	(43)	104
Other comprehensive (loss) income, net of tax	(2,980)	382	104
Comprehensive loss	(110,997)	(72,100)	(67,199)
Less: Comprehensive income attributable to redeemable noncontrolling interests	11,621	24,438	22,890
Comprehensive loss attributable to Paycor HCM, Inc.	$ (122,618)	$ (96,538)	$ (90,089)

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Paycor HCM, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(in thousands, except share amounts)

	Preferred Stock		Series A Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity before Noncontrolling Interest	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Treasury Stock						
Balance, June 30, 2019	—	$ —	—	$ —	151,718,000	$ 152	$ —	$1,124,310	$ (88,518)	$ 2,666	$ 1,038,610	$ (40)	$ 1,038,570
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(90,193)	—	(90,193)	—	(90,193)
Stock-based compensation expense	—	—	—	—	—	—	—	4,906	—	—	4,906	—	4,906
Other comprehensive income	—	—	—	—	—	—	—	—	—	104	104	—	104
Other	—	—	—	—	—	—	—	—	(102)	—	(102)	40	(62)
Balance, June 30, 2020	—	$ —	—	$ —	151,718,000	$ 152	$ —	$1,129,216	$ (178,813)	$ 2,770	$ 953,325	$ —	$ 953,325
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(96,920)	—	(96,920)	—	(96,920)
Stock-based compensation expense	—	—	—	—	—	—	—	4,172	—	—	4,172	—	4,172
Other comprehensive income	—	—	—	—	—	—	—	—	—	382	382	—	382
Issuance of preferred stock, net	—	—	7,715	262,772	—	—		—	—	—	262,772	—	262,772
Repurchase of common stock, at cost	—	—	—	—	(10,620,260)	(11)	(245,074)	11	—	—	(245,074)	—	(245,074)
Other	—	—	—	—	—	—	—	—	(18)	—	(18)	—	(18)
Balance, June 30, 2021	—	$ —	7,715	$262,772	141,097,740	$ 141	$(245,074)	$1,133,399	$ (275,751)	$ 3,152	$ 878,639	$ —	$ 878,639
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(119,638)	—	(119,638)	—	(119,638)
Stock-based compensation expense	—	—	—	—	—	—	—	71,376	—	—	71,376	—	71,376
Issuance of common stock sold in the initial public offering, net of offering costs and underwriting discount	—	—	—	—	21,275,000	21	—	454,126	—	—	454,147	—	454,147
Conversion of Series A Preferred Stock to common stock upon initial public offering	—	—	(7,715)	(262,772)	11,705,039	12	—	262,760	—	—	—	—	—
Issuance of common stock upon vesting of restricted stock units at initial public offering	—	—	—	—	352,124	—	—	—	—	—	—	—	—
Issuance of common stock under employee stock plans	—	—	—	—	479,636	1	—	3,186	—	—	3,187	—	3,187
Other comprehensive income	—	—	—	—	—	—	—	—	—	(2,980)	(2,980)	—	(2,980)
Other	—	—	—	—	—	—	—	1,953	—	(1,953)	—	—	—
Balance, June 30, 2022	—	$ —	—	$ —	174,909,539	$ 175	$(245,074)	$1,926,800	$ (395,389)	$ (1,781)	$ 1,284,731	$ —	$ 1,284,731

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Paycor HCM, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands)

	Fiscal Year Ended June 30,		
	2022	2021	2020
Cash flows from operating activities:			
Net loss	$ (108,017)	$ (72,482)	$ (67,303)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	6,457	6,947	5,462
Amortization of intangible assets and software	124,016	139,354	127,755
Amortization of deferred contract costs	31,471	19,501	10,206
Stock-based compensation expense	71,376	4,172	4,906
Amortization of debt acquisition costs	88	637	620
Deferred tax benefit	(30,940)	(21,022)	(20,181)
Bad debt expense	2,085	1,791	1,812
Gain on sale of investments	(2)	(127)	(2,513)
Gain on installment sale	(1,359)	—	—
Loss (gain) on foreign currency exchange	309	(755)	—
Loss on lease exit	9,112	—	—
Change in fair value of deferred consideration	(138)	—	—
Loss (gain) on extinguishment of debt	—	1,806	(6,240)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(7,133)	(7,731)	(2,584)
Prepaid expenses and other current assets	(3,193)	962	1,238
Other long-term assets	448	(1,726)	(240)
Accounts payable	2,015	(244)	(1,407)
Accrued liabilities	12,195	5,430	(13,973)
Deferred revenue	1,077	(1,350)	5,500
Other long-term liabilities	(5,954)	(1,428)	8,808
Deferred contract costs	(79,562)	(62,962)	(51,778)
Net cash provided by operating activities	24,351	10,773	88
Cash flows from investing activities:			
Purchases of client funds available-for-sale securities	(211,473)	(237,054)	(571,385)
Proceeds from sale and maturities of client funds available-for-sale securities	166,372	235,768	722,588
Purchase of property and equipment	(1,986)	(3,335)	(7,833)
Proceeds from note receivable on installment sale	3,040	—	—
Acquisition of intangible assets	(9,706)	(9,252)	(2,995)
Acquisition of Paltech Solutions, Inc., net of cash acquired	—	(16,740)	—
Internally developed software costs	(30,797)	(21,968)	(18,846)
Net cash (used in) provided by investing activities	(84,550)	(52,581)	121,529
Cash flows from financing activities:			
Net change in cash and cash equivalents held to satisfy client funds obligations	1,037,543	25,983	(29,803)
Capital contribution in Apax Transaction	—	—	(63)
Payment of contingent consideration	—	(3,000)	—
Payment of deferred consideration	(2,752)	—	—
Proceeds from promissory note with related party	—	64,989	—
Repayment of promissory note with related party	—	(64,989)	—
Proceeds from line-of-credit	3,500	107,020	114,127
Repayments of line-of-credit	(52,600)	(62,921)	(109,126)
Proceeds from debt	—	25,000	20,000
Repayments of debt and capital lease obligations	(323)	(44,517)	(15,886)
Proceeds from issuance of preferred stock, net of offering costs	—	262,772	—
Purchase of treasury stock at cost	—	(245,074)	—
Proceeds from the issuance of common stock sold in the IPO, net of offering costs and underwriting discount	454,915	—	—
Redemption of Redeemable Series A Preferred Stock (acquisition of non-controlling interest)	(260,044)	—	—
Proceeds from employee stock purchase plan	3,187	—	—
Dividends paid to noncontrolling interests	—	(9,350)	—
Other financing activities	(395)	(597)	(129)
Net cash provided by (used in) financing activities	1,183,031	55,316	(20,880)
Impact of foreign exchange on cash and cash equivalents	91	44	—
Net change in cash, cash equivalents, restricted cash and short-term investments, and funds held for clients	1,122,923	13,552	100,737
Cash, cash equivalents, restricted cash and short-term investments, and funds held for clients, beginning of period	560,000	546,448	445,711
Cash, cash equivalents, restricted cash and short-term investments, and funds held for clients, end of period	$ 1,682,923	$ 560,000	$ 546,448
Supplemental disclosure of non-cash investing, financing and other cash flow information:			
Capital expenditures in accounts payable	$ 5	$ 129	$ 1,032
Cash paid during the year for interest	$ 154	$ 1,347	$ 823

Reconciliation of cash, cash equivalents, restricted cash and short-term investments, and funds held for clients to the Consolidated Balance Sheets

Cash and cash equivalents	$ 133,041	$ 2,634	$ 828
Restricted cash and short-term investments	—	—	12,017
Funds held for clients	1,549,882	557,366	533,603
Total cash, cash equivalents, restricted cash and short-term investments, and funds held for clients	$ 1,682,923	$ 560,000	$ 546,448

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS:

Paycor HCM, Inc. ("Paycor HCM" or "the Company") and its subsidiaries is a cloud-based provider of human capital management ("HCM") software solutions for small and medium-sized employers located primarily in the United States ("U.S."). Solutions provided include payroll, workforce management and human resources ("HR") related services such as talent management, reporting and analytics and other payroll-related services. Services are generally provided in a Software-as-a-Service ("SaaS") delivery model utilizing a cloud-based platform.

Paycor HCM is a holding company with no material operating assets or operations that was formed on August 24, 2018 to effect the acquisition of Paycor, Inc. and its subsidiaries ("Paycor"). On September 7, 2018, Paycor HCM, through its subsidiary companies, entered into the Agreement and Plan of Merger to acquire Paycor (the "Apax Acquisition"). The Apax Acquisition closed on November 2, 2018. Paycor HCM is controlled by Pride Aggregator, L.P. which is controlled by a syndication led by Apax Partners L.P. ("Apax"), a private equity firm. As a result of the Apax Acquisition, Paycor is an indirect controlled subsidiary of Paycor HCM.

Initial Public Offering

On July 20, 2021, the Company priced the initial public offering ("IPO") of 18,500,000 shares of its common stock (the "Firm Shares"), $0.001 par value per share, at an offering price of $23.00 per share (the "IPO Price"). The underwriters were granted a 30-day option to purchase up to an additional 2,775,000 shares of common stock from the Company (the "Option Shares"), which was exercised by the underwriters in whole. The IPO closed and both the Firm Shares and the Option Shares were delivered on July 23, 2021. In aggregate, the IPO shares issued generated approximately $454,915, which is net of approximately $30,583 in underwriters' discount and $3,827 of offering costs paid during the fiscal year ended June 30, 2022. Upon completion of the IPO, $4,595 of offering costs, $3,827 of which were paid during the fiscal year ended June 30, 2022, were recorded to additional paid-in capital and accounted for as a reduction of the IPO proceeds in the consolidated balance sheets. Additionally, upon the closing of the IPO:

- all of the Company's outstanding shares of Series A Preferred Stock were automatically converted into 11,705,039 shares of the Company's common stock;
- the Company used a portion of the proceeds to effect the redemption of all of the outstanding shares of the Series A Redeemable Preferred Stock (acquisition of non-controlling interest) ("Series A Redeemable Preferred Stock" or "Redeemable Noncontrolling Interest") at a redemption price of 101% of the liquidation preference, plus the amount of all accrued dividends for the then current and all prior dividend payment periods, for a total of $260,044;
- the outstanding Long Term Incentive Plan Units ("LTIP Units") converted to 1,761,578 restricted stock units ("RSUs") and the Company began recognizing compensation expense equal to the aggregate dollar value over the requisite two-year service period; and
- the performance-based incentive units granted under the Pride Aggregator, L.P. Management Equity Plan ("MEP") converted to time-based incentive units, with 25% vesting upon successive 6-month anniversary dates for the 24 months beginning on the date of the Company's IPO.

In connection with the Company's IPO, the Company executed a 1,517.18 for 1 share stock split ("IPO Stock Split") relating to its common stock. All share and per share amounts have been retroactively adjusted to reflect the IPO Stock Split for all periods presented within the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation and consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying financial statements are presented on a consolidated basis for all periods presented. All intercompany transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the recognition of revenue, evaluation of potential impairment of goodwill and intangible assets, and the valuation of stock-based compensation.

The Company's results of operations and financial condition can also be affected by economic, political, legislative, regulatory and legal actions, including but not limited to health epidemics and pandemics and their resulting economic impact, including the impact from the COVID-19 pandemic. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, and government fiscal policies can have a significant effect on the Company's results of operations and financial condition. While the Company maintains reserves for anticipated liabilities and carries various levels of insurance, the Company could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings.

Concentrations of risk

The Company regularly maintains deposits in banks which may, at times, exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company mitigates exposure to credit risk by placing cash and cash equivalents with highly rated financial institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. No individual client represents more than 1% of total revenues. The majority of all revenues are generated by clients in the United States.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original issue maturity of three months or less and money market funds to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value given the short-term maturity of those instruments.

Restricted cash and short-term investments

The Company designated a portion of cash received from the Apax Acquisition as restricted within the consolidated balance sheets since the cash and short-term investments are being held for the settlement of the cash-based compensation awards by the employees upon vesting. The short-term investments consist of U.S. Treasury Notes, direct obligations of U.S. government agencies and high-grade corporate bonds. As of June 30, 2021, all restricted cash received in the Apax Acquisition has been liquidated through the settlement of cash-based liability compensation awards.

Funds held for clients

The Company generally collects substantially all funds from clients in advance of performing payroll and payroll tax filing services on behalf of those clients. Funds held for clients consist of cash and cash equivalents and debt-security investments. Debt-security investments are classified as available-for-sale and are recorded at fair value, and consist of U.S. Treasury Notes, direct obligations of U.S. government agencies such as the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Farm Credit Bank, high grade corporate bonds, FDIC insured certificates of deposit, and other short-term and long-term investments. At June 30, 2022 and 2021, all the Company's corporate bond investments are rated investment grade or better. The Company has classified funds held for clients as a current asset since these funds are held solely for the purposes of satisfying client obligations to remit funds relating to payroll and payroll tax filing services. Unrealized gains and losses, net of applicable income taxes, are reported as other comprehensive (loss) income, net of tax in the consolidated statements of comprehensive loss. Realized gains and losses on the sale of securities are determined by specific identification of the security's cost basis.

Client fund obligations

Client fund obligations represent the Company's contractual obligations to remit funds to satisfy clients' payroll and tax payment obligations and are recorded in the accompanying consolidated balance sheets at the time the Company obtains the funds from clients. The client fund obligations represent the liabilities that will be remitted to the appropriate client employees, taxing authorities and other parties within one year of the balance sheet date.

Accounts receivable, net

Accounts receivable balances are shown on the consolidated balance sheets net of the allowance for doubtful accounts of $3,268 and $2,402 as of June 30, 2022 and June 30, 2021, respectively. The allowance for doubtful accounts considers factors such as historical experience, credit quality, age of the accounts receivable balance and current and forecasted economic conditions that may affect a client's ability to pay. The Company performs ongoing credit evaluations and generally requires no collateral from clients. Management reviews individual accounts as they become past due to determine collectability. The allowance for doubtful accounts is adjusted periodically based on management's consideration of past due accounts. Individual accounts are charged against the allowance when all reasonable collection efforts have been exhausted.

Property and equipment, net

Property and equipment are recorded at cost. Depreciation and amortization on the property and equipment is computed using the straight-line method over the following estimated useful lives:

Computers, equipment and software	3 to 5 years
Office equipment	5 to 7 years
Furniture and fixtures	7 years
Leasehold improvements	Over lease term
Land improvements	15 years
Building	30 years

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for impairment, the Company first compares the undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques. In accordance with the decision to exit certain leases of facilities in fiscal year 2022, the carrying value of ceased-use furniture, fixtures, equipment and leasehold improvements was written off, resulting in an impairment charge of $4,910. No impairment was recorded for any other period presented.

Goodwill and intangible assets, net

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The Company performs an annual impairment review of goodwill in its fiscal fourth quarter and additional impairment reviews when events and circumstances indicate it is more likely than not that an impairment may have occurred. The Company assesses goodwill for impairment at the consolidated level, which represents its single reporting unit.

In evaluating goodwill for impairment, the Company has the option to first perform a qualitative assessment to determine whether further impairment testing is necessary or to perform a quantitative assessment by comparing the fair value of its single reporting unit to its carrying amount, including goodwill. Under the qualitative assessment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. Qualitative factors include macroeconomic conditions, industry and market conditions, cost factors, and overall financial performance, among others.

Under a quantitative assessment, fair value of the Company's single reporting unit is estimated using a weighted methodology considering the output from both the income and market approaches. The income approach incorporates the use of a discounted cash flow ("DCF") analysis. A number of judgments are involved in the application of the DCF model, including projections of business performance, weighted average cost of capital, and terminal values. The market approach is performed using the Guideline Public Companies method which is based on earnings multiple data derived from publicly traded peer group companies.

The Company elected to perform a qualitative assessment during both fiscal years 2022 and 2021, and determined for both periods that no indicators of impairment existed, and the fair value of the Company significantly exceeded its carrying amount.

Other intangible assets principally consist of acquired software, customer relationships and trade names and are carried at cost, less accumulated amortization. These intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company tests intangible assets for potential impairment in a manner consistent with other long-lived assets when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. No impairment was recorded for any periods presented.

Capitalized software, net

The Company has developed payroll and human resources software to provide its clients with the Company's services. Capitalized costs include external direct costs of materials and services associated with developing or obtaining internal-use computer software and certain payroll and payroll-related costs for employees who are directly associated with internal-use computer software projects. Expenditures for software purchases and software developed or obtained for internal-use are capitalized and amortized on a straight-line basis over the estimated product life, which is generally three years. Costs associated with preliminary project stage activities, training, maintenance and all other post-implementation stage activities are expensed as incurred.

Revenue recognition

Revenues are recognized when control of the promised goods or services is transferred to clients in an amount that reflects the consideration the Company is entitled to for those goods or services. The Company derives its revenue from contracts predominantly from recurring and non-recurring service fees. The majority of its agreements are generally cancellable by the client on 30 days' notice.

Recurring fees are derived from payroll, workforce management, and HR-related cloud-based computing services. The majority of the Company's recurring fees are satisfied over time as the services are provided during each client's payroll period, and the timing of revenue recognition for these fees is consistent with the timing of invoicing as they occur simultaneously upon the client payroll processing period or by month. The performance obligations related to payroll services are delivered based upon the payroll frequency of the client with the fee charged and collected based on a per-employee-per-month or per-employee-per-payroll basis. The performance obligations related to workforce management and HR-related services are generally satisfied each month with the fee charged and collected based on a per-employee-per-month basis. For subscription-based fees, which can include payroll, workforce management, and HR-related services, the Company recognizes the applicable recurring fees each month with the fee charged and collected based on a per-employee-per-month basis.

Non-recurring service fees consist mainly of nonrefundable implementation fees. The implementation activities involve setting the client up and loading data into the Company's cloud-based modules. The Company has determined that the nonrefundable upfront fees provide certain clients with a material right to renew the contract beyond the normal 30-day contractual period without payment of an additional upfront implementation fee. Implementation fees are deferred and recognized as revenue over the period to which the material right exists, which is the period the client is expected to benefit from not having to pay an additional nonrefundable implementation fee upon renewal of the service.

Sales taxes collected from clients and remitted to governmental authorities where applicable are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of operations.

Interest on funds held for clients is earned primarily on funds that are collected from clients before due dates for payroll tax administration services and for employee payment services and invested until remittance to the applicable tax or regulatory agencies or client employees. The interest earned on these funds is included in total revenue within the consolidated statements of operations because the collecting, holding, and remitting of these funds are components of providing these services.

Cost of revenues

Cost of revenues includes costs relating to the provision of ongoing customer support and implementation activities, payroll tax filing, distribution of printed checks and other materials providing the Company's payroll and other HCM solutions. These costs primarily consist of expenses relating to associates who service customers, including employee-related costs, as well as third-party processing fees, delivery costs, hosting costs, and bank fees associated with client fund transfers.

The Company capitalizes costs to fulfill a contract related to its products if they are identifiable, generate or enhance resources used to satisfy future performance obligations and are expected to be recovered. The Company utilizes the portfolio approach based on the period in which the costs are incurred to account for the cost of fulfilling a contract. Capitalized costs to fulfill a contract are amortized over the expected period of benefit, which is generally six years based on the Company's average client life, derived from analyzing client attrition rates using historical data as well as other qualitative factors, including rate of technological changes. The expected period of benefit has been determined to be the average client life primarily because the Company does not incur any additional costs to fulfill contracts upon renewal. The Company recognizes fulfillment costs when an existing client purchases additional services. The additional costs only relate to the additional services purchased and do not relate to the renewal of previous services. The Company continues to expense certain costs to fulfill a contract if those costs do not meet the capitalization criteria.

Sales and marketing

Sales and marketing expenses consist of costs associated with the Company's direct sales and marketing staff, including employee-related costs, marketing, advertising and promotion expenses, and other related costs. Advertising and promotion costs are expensed as incurred. Advertising and promotion expense totaled approximately $22,130, $17,964, and $14,874 for the fiscal years ended June 30, 2022, 2021 and 2020, respectively.

The Company defers certain commission costs that meet the capitalization criteria. The Company utilizes the portfolio approach based on the period in which the commissions are incurred to account for the cost of obtaining a contract. Capitalized costs to obtain a contract are amortized over the expected period of benefit, which is generally six years based on the Company's average client life, derived from analyzing client attrition rates using historical data as well as other qualitative factors, including rate of technological changes. The expected period of benefit approximates the average client life primarily because the Company does not incur any additional costs to obtain contracts upon renewal.

General and administrative

General and administrative expenses consist primarily of employee-related costs, including employee-related costs for the Company's administrative, finance, accounting, legal, enterprise technology and human resources departments. Additional expenses include consulting and professional fees, occupancy costs, insurance, and other corporate expenses.

Research and development

Research and development expenses consist primarily of employee-related expenses for the Company’s software development and product management staff. Additional expenses include costs related to the development, maintenance, quality assurance and testing of new technologies, and ongoing refinement of the Company’s existing solutions. Research and development expenses, other than internal-use software costs qualifying for capitalization, including costs associated with preliminary project stage activities, training, maintenance, and all other post-implementation stage activities are expensed as incurred.

The Company capitalizes a portion of its development costs related to internal-use software, which are amortized over a period of three years into cost of revenues. The timing of the Company’s capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development costs for the fiscal years ended June 30, 2022, 2021 and 2020:

	Fiscal Years Ended June 30,		
(in thousands)	2022	2021	2020
Capitalized software	$ 29,831	$ 21,228	$ 18,846
Research and development expenses	$ 43,140	$ 36,020	$ 45,866

Interest expense

Interest expense consists primarily of interest payments and accruals relating to outstanding borrowings.

Other (expense) income

Other (expense) income generally consists of other income and expense items outside of the Company’s normal operations, such as realized gains or losses on the sale of certain positions of funds held for clients, gains or losses on the extinguishment of debt and expenses relating to the Company’s financing arrangements.

Stock-based compensation

The Company recognizes all employee and director stock-based compensation as a cost in the consolidated financial statements. Equity-classified awards are measured at the grant date fair value of the award and expense is recognized, net of actual forfeitures, on a straight-line basis over the requisite service period for the award.

For periods prior to the IPO, the Company estimated grant date fair value using a Monte Carlo simulation model. As the Company's equity was not publicly traded, there was no history of market prices for the Company's equity. Thus, estimating grant date fair value required the Company to make assumptions, including the value of the Company's equity, expected volatility, expected term and the expected risk-free rate of return.

For periods subsequent to the IPO, the Company establishes grant date fair value of RSUs based on the fair value of the Company's underlying common stock. The Company estimates the grant date fair value of stock options, including common stock purchased as a part of the Company's Employee Stock Purchase Plan ("ESPP"), using the Black-Scholes option pricing model, which requires management to make assumptions with respect to the fair value of the Company's award on the grant date, including the expected term of the award, the expected volatility of the Company's stock calculated based on a period of time generally commensurate with the expected term of the award, the expected risk-free rate of return, and expected dividend yields of the Company's stock. See Note 14 - “Equity Compensation Plans” for additional information on the Company’s stock-based compensation plans.

Income taxes

The Company accrues income taxes payable or refundable and recognizes deferred tax assets and liabilities based on differences between the book and tax basis of assets and liabilities. The Company measures deferred tax assets and liabilities using enacted rates in effect for the years in which the differences are expected to reverse and recognizes the effect of a change in enacted rates in the period of enactment.

The Company recognizes deferred tax assets to the extent it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent results of operations.

When uncertain tax positions exist, the Company recognizes the benefit of tax positions to the extent that the benefit will be more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position, as well as consideration of the available facts and circumstances. Interest associated with uncertain tax positions are recognized as a component of income tax expense.

Loss per share

Basic loss per share is computed by dividing net loss attributable to Paycor HCM, Inc. by the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net loss attributable to Paycor HCM, Inc. by the weighted-average number of common shares outstanding during the period and the impact of securities that would have a dilutive effect, if any. See Note 15 - “Net Loss Per Share” for further discussion.

Deferred IPO issuance costs

Deferred issuance costs, which primarily consist of direct incremental legal and accounting fees relating to the IPO of the Company’s common stock, were capitalized. The deferred issuance costs were offset against IPO proceeds upon the consummation of the offering, which closed on July 23, 2021. The Company capitalized and deferred approximately $2,423 in IPO issuance costs as of June 30, 2021, which are included within other long-term assets within the consolidated balance sheets.

Segments

Operating segments are defined as components of an enterprise engaging in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company manages its business as a single operating segment at the consolidated level.

Pending accounting pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases” (Topic 842). This update amends existing accounting standards for lease accounting and requires lessees to recognize virtually all leases on the balance sheet by recording a right-of-use asset and a lease liability (for other than short-term leases). The Company has formed a project team to review contracts to determine which qualify as a lease and then evaluate the impact of the adoption of this principle on the Company’s consolidated financial statements. The Company is evaluating, designing, and implementing new processes and internal controls to meet the requirements to report and disclose financial information relating to the Company’s leases. In addition, the Company is designing a process to perform the necessary calculations to derive the right-of-use assets and liabilities associated with each lease to support the requirements of the new standard.

The Company anticipates that the adoption of this standard will materially affect the consolidated balance sheets. The Company will adopt this ASU on July 1, 2022 using the modified retrospective approach. The Company plans to apply the package of practical expedients in the guidance which, among other things, includes carrying forward the historical lease classification. The Company plans to make accounting policy elections not to apply the new guidance to leases with a term of less than 12 months, as well as to derive the incremental borrowing rate at the July 1, 2022 adoption date based on the remaining lease term as of the adoption date. As of July 1, 2022, the Company expects to record a right-of-use asset in the range of $15 million - $19 million and a lease liability in the range of $22 million - $26 million based on the current portfolio of leases, which primarily consist of real estate operating leases.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses” (Topic 326). This update establishes a new approach to estimate credit losses on certain types of financial instruments. The update requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The amended standard will also update the impairment model for available-for-sale debt securities, requiring entities to determine whether all or a portion of the unrealized loss on any such securities is a credit loss. The Company is currently evaluating this standard and the potential effects of these changes to its consolidated financial statements and expects to adopt this new standard in the fiscal year beginning July 1, 2023 if the Company continues to qualify as an emerging growth company.

3. REVENUE:

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

	Fiscal Year Ended June 30,		
	2022	2021	2020
Recurring fees	$ 414,677	$ 337,012	$ 309,948
Implementation services and other	12,355	13,944	7,672
Recurring and other revenue	$ 427,032	$ 350,956	$ 317,620

Deferred revenue

The Company recognizes deferred revenue for nonrefundable upfront fees as well as for subscription services related to certain ancillary products invoiced prior to the satisfaction of the performance obligation.

The nonrefundable upfront fees related to implementation services are typically included on the client's first invoice. Implementation fees are deferred and recognized as revenue over an estimated 24-month period to which the material right exists, which is the period the client is expected to benefit from not having to pay an additional nonrefundable implementation fee upon renewal of the service.

The following table summarizes the changes in deferred revenue related to the nonrefundable upfront fees and recurring subscription services:

	Fiscal Year Ended June 30,	
	2022	2021
Balance, beginning of period	$ 16,047	$ 15,916
Deferred revenue acquired	—	1,374
Deferral of revenue	20,552	17,781
Revenue recognized	(19,468)	(19,033)
Impact of foreign exchange	(85)	9
Balance, end of period	$ 17,046	$ 16,047

Deferred revenue is recorded within deferred revenue and other long-term liabilities on the consolidated balance sheets. The Company will recognize deferred revenue of $11,742 in fiscal year 2023, $4,100 in fiscal year 2024, and $1,204 in fiscal year 2025.

Deferred contract costs

	As of and for the Fiscal Year Ended June 30, 2022			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	$ 52,926	$ 33,569	$ (14,153)	$ 72,342
Costs to fulfill a contract	62,457	45,993	(17,318)	91,132
Total	$ 115,383	$ 79,562	$ (31,471)	$ 163,474

	As of and for the Fiscal Year Ended June 30, 2021			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	$ 32,233	$ 29,568	$ (8,875)	$ 52,926
Costs to fulfill a contract	39,689	33,394	(10,626)	62,457
Total	$ 71,922	$ 62,962	$ (19,501)	$ 115,383

Deferred contract costs are recorded within deferred contract costs and long-term deferred contract costs on the consolidated balance sheets. Amortization of costs to fulfill a contract and costs to obtain a contract are recorded in cost of revenues and sales and marketing expense in the consolidated statements of operations, respectively. The Company regularly reviews its deferred costs for impairment and did not recognize an impairment loss during any period presented in this report.

4. BUSINESS COMBINATION AND ASSET ACQUISITION:

Acquisition of Paltech Solutions, Inc.

On September 24, 2020, the Company entered into a share purchase agreement with Paltech Solutions, Inc. (doing business as “7Geese”), a performance management SaaS application, to acquire 100% of the equity interests (the “7Geese Acquisition”). The acquisition enabled the Company to expand its current service offerings. The cash consideration was funded using proceeds from the issuance of a term loan.

The acquisition was accounted for as a business combination. The purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair value at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, $1,661 of which is deductible for tax purposes. Goodwill consists primarily of the acquired workforce, synergistic benefits, and growth opportunities. The factors contributing to the recognition of goodwill were based on strategic benefits that are expected to be realized from the 7Geese Acquisition. The benefits include acquiring a software technology tailored to small and medium-sized businesses that can be integrated into the current suite of Company products. The final purchase price allocation is as follows:

		7Geese Acquisition
Cash consideration	$	16,847
Contingent consideration		3,000
Deferred consideration		2,900
Fair value of total consideration		22,747
Cash acquired		(107)
Net purchase price	$	22,640
Assets acquired:		
Accounts receivable	$	477
Other current assets		295
Property and equipment		64
Technology intangible assets		9,040
Other intangible assets		100
Other non-current assets		9
Total identifiable assets acquired		9,985
Liabilities assumed:		
Accounts payable		(34)
Accrued expenses		(1,730)
Deferred revenue		(1,374)
Total identifiable liabilities assumed		(3,138)
Goodwill		15,793
Fair value of total consideration transferred	$	22,640

The technology intangible assets have a weighted average useful life of 3 years.

The contingent consideration related to the 7Geese Acquisition consisted of a maximum of $3,000 in payments based on the achievement of operational milestones within a three-year period. The contingent consideration was initially measured at fair value at the acquisition date and recorded as a liability. The liability at fair value was based on the estimated future payments. The Company made payments of $1,000 in March 2021 and $2,000 in May 2021 to fully satisfy the contingent payment obligation.

The deferred consideration related to the 7Geese Acquisition consisted of a one-time payment due and paid in the second quarter of fiscal year 2022.

The Company incurred transaction costs of approximately $500 related to the 7Geese Acquisition for the fiscal year ended June 30, 2021. These costs were expensed as incurred in general and administrative expenses on the accompanying consolidated statements of operations.

Asset Acquisition

On February 4, 2021, the Company acquired payroll, timekeeping and HCM service customer relationships from another large provider of HCM services for an initial purchase price of approximately $9,300, which included approximately $50 of transaction costs. As part of this asset purchase, the Company is required to make quarterly contingent payments and a final payment to the seller based on the revenue generated by the acquired clients over a 12-month period. Contingent payments made for the fiscal years ended June 30, 2022 and 2021 were $6,688 and $—, respectively.

The acquired customer relationships are recorded as an intangible asset and are being amortized on a straight-line basis over three years. As of June 30, 2022, the weighted average amortization period for these intangible assets was approximately 1.6 years. The contingent payments are recognized when each contingency is resolved and the consideration is paid or becomes payable as an increase to the acquired intangible asset, amortized on a straight-line basis over the remaining period of the initial acquired intangible asset.

5. FUNDS HELD FOR CLIENTS:

Funds held for clients are as follows:

	June 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Demand deposit accounts and other cash equivalents	$ 1,549,882	$ —	$ —	$ 1,549,882
U.S. Treasury and direct obligations of U.S. government agencies	29,367	—	(290)	29,077
Corporate bonds	112,753	4	(1,894)	110,863
Commercial paper	6,642	2	(3)	6,641
Other securities	19,817	2	(366)	19,453
	$ 1,718,461	$ 8	$ (2,553)	$ 1,715,916

	June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Demand deposit accounts and other cash equivalents	$ 557,366	$ —	$ —	$ 557,366
U.S. Treasury and direct obligations of U.S. government agencies	28,757	92	(11)	28,838
Corporate bonds	50,188	1,900	(189)	51,899
Commercial paper	21,831	11	(6)	21,836
Other securities	9,821	629	(74)	10,376
	$ 667,963	$ 2,632	$ (280)	$ 670,315

Other securities are primarily comprised of collateralized and other mortgage obligations, municipal obligations, and certificates of deposit.

Proceeds from sales and maturities of investment securities for the fiscal years ended June 30, 2022, 2021, and 2020 were approximately $166,372, $235,768, and $722,588, respectively.

The Company is exposed to interest rate risk as rate volatility will cause fluctuations in the earnings potential of future investments. The Company does not utilize derivative financial instruments to manage interest rate risk.

The Company reviews its investments on an ongoing basis to determine if any are other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. The Company has no material individual securities that have been in a continuous unrealized loss position greater than twelve months. The Company believes these unrealized losses result from changes in interest rates rather than credit risk, and therefore does not believe the related investments are other-than-temporarily impaired.

Expected maturities as of June 30, 2022 for client fund assets are as follows:

Due within fiscal year 2023	$	1,632,317
Due within fiscal year 2024		37,050
Due within fiscal year 2025		35,092
Due after fiscal year 2025		11,457
Total	$	1,715,916

6. PROPERTY AND EQUIPMENT, NET:

A summary of the Company's property and equipment, net is as follows:

		June 30, 2022		June 30, 2021
Land	$	3,680	$	3,680
Land improvements		910		910
Building and improvements		22,845		22,845
Computer, equipment and software		14,951		13,427
Furniture and fixtures		2,246		4,596
Office equipment		2,538		2,337
Leasehold improvements		1,430		8,227
		48,600		56,022
Accumulated depreciation and amortization		(16,925)		(14,942)
Property and equipment, net	$	31,675	$	41,080

Depreciation and amortization of property and equipment was approximately $6,457, $6,947, and $5,462 for the fiscal years ended June 30, 2022, 2021, and 2020 respectively.

7. CAPITALIZED SOFTWARE, NET:

A summary of the Company's capitalized software, net is as follows:

		June 30, 2022		June 30, 2021
Capitalized software	$	83,682	$	52,945
Accumulated amortization		(43,680)		(21,635)
Capitalized software, net	$	40,002	$	31,310

Amortization expense for capitalized software was approximately $22,057, $13,764, and $6,893 for the fiscal years ended June 30, 2022, 2021, and 2020 respectively.

The following is a schedule of future amortization expense as of June 30, 2022:

2023	$ 21,006
2024	14,135
2025	4,861
	$ 40,002

8. GOODWILL AND INTANGIBLE ASSETS:

Goodwill represents the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired.

Changes in the carrying amount of goodwill are presented below:

Balance at July 1, 2020	$ 733,801
7Geese Acquisition	15,793
Foreign currency translation	1,208
Balance at June 30, 2021	$ 750,802
Foreign currency translation	(647)
Balance at June 30, 2022	$ 750,155

Components of intangible assets were as follows:

	June 30, 2022	June 30, 2021
Cost:		
Technology	$ 142,165	$ 140,665
Customer relationships	443,187	434,983
Trade name	105,672	105,672
Total cost	$ 691,024	$ 681,320
Accumulated amortization:		
Technology	$ (135,982)	$ (116,669)
Customer relationships	(266,129)	(190,538)
Trade name	(25,844)	(18,790)
Total accumulated amortization	$ (427,955)	$ (325,997)
Intangible assets, net	$ 263,069	$ 355,323

Amortization expense for intangible assets was approximately $101,959, $125,590, and $120,862 for the fiscal years ended June 30, 2022, 2021, and 2020 respectively.

The following is a schedule of future amortization expense as of June 30, 2022:

2023	$ 89,516
2024	83,380
2025	31,478
2026	7,043
2027	7,043
Thereafter	44,609
	$ 263,069

9. DEBT AGREEMENTS AND LETTERS OF CREDIT:

The Company’s long-term debt consists of the following:

	June 30, 2022	June 30, 2021
2021 Credit Facility	$ —	$ 49,100
Less: Unamortized debt issuance costs	—	—
Total long-term debt (including current portion)	—	49,100
Less: Current portion	—	—
Total long-term debt, net	$ —	$ 49,100

2021 Credit Agreement

On June 11, 2021, Paycor, Inc. entered into a new credit agreement (the “2021 Credit Agreement”) with PNC Bank, National Association (“PNC”), Fifth Third, National Association, and other lenders, providing a $100,000 senior secured revolving credit facility (the “2021 Credit Facility”). The 2021 Credit Facility includes an “accordion feature” that allows the Company, under certain circumstances, to increase the size of the 2021 Credit Facility by an additional principal amount of up to $300,000, with a resulting maximum principal amount of $400,000, subject to the participating lenders electing to increase their commitments or new lenders being added to the 2021 Credit Agreement.

On September 3, 2021, the Company entered into an amendment (the “2021 Amendment”) to the 2021 Credit Agreement which increased the size of the 2021 Credit Facility from $100,000 to $200,000. No other significant terms of the 2021 Credit Agreement were changed in connection with the 2021 Amendment.

Borrowings under the 2021 Credit Facility, if any, have variable interest rates. The variable interest rates equal, at the Company’s option, either, (i) in the case of ABR borrowings, the highest of (a) the PNC prime rate, (b) the Federal Funds Rate plus 0.50%, and (c) the adjusted London interbank offered rate (“LIBOR”) with a maturity of one month, plus 1.00% (“ABR”) or (ii) in the case of LIBOR borrowings, the LIBOR rate, plus, in each case, an applicable margin of (A) prior to the IPO, (i) in the case of ABR borrowings, 0.95% per annum and (ii) in the case of LIBOR borrowings, 1.95% per annum or (B) following the IPO, (i) in the case of ABR borrowings, 0.375% per annum or (ii) in the case of LIBOR borrowings, 1.375% per annum, in each case, with step downs based on achievement of certain total leverage ratios.

The 2021 Credit Facility requires the Company to pay a quarterly unused fee of (i) prior to an initial public offering, 0.25% and (ii) following an initial public offering, between 0.10% per annum and 0.175% per annum based on our total leverage ratio.

The 2021 Credit Facility will mature on June 11, 2026.

Borrowings under the 2021 Credit Agreement are guaranteed by a subsidiary, Pride Guarantor, Inc. and certain other subsidiaries. These borrowings are secured by liens and security interests on substantially all of the assets of existing and future material domestic subsidiaries of Pride Guarantor, Inc.

The 2021 Credit Agreement contains financial covenants, which are reviewed for compliance on a quarterly basis, including a total leverage ratio financial covenant of 3.50 to 1.00 and an interest coverage ratio financial covenant of 3.00 to 1.00. As of June 30, 2022, the Company was in compliance with all covenants.

On July 15, 2021 and August 9, 2021, the Company repaid $4,600 and $44,500, respectively, of revolver borrowings under the 2021 Credit Facility. As of June 30, 2022, there were no outstanding revolver borrowings under the 2021 Credit Facility.

As a result of the Company entering into the 2021 Credit Facility, the Company expensed approximately $2,195 primarily consisting of write-offs of previously deferred unamortized deferred financing fees and certain third-party costs. Amounts expensed are recorded as other (expense) income - other on the consolidated statement of operations for the fiscal year ended June 30, 2021.

Additionally, the Company capitalized approximately $342 of deferred financing fees for the year ended June 30, 2021 in connection with entering into the 2021 Credit Facility, which are included in other long-term assets within the consolidated balance sheets.

As a result of the Company entering into the 2021 Amendment, the Company expensed approximately $35 primarily consisting of third-party costs. Amounts expensed relating to the 2021 Amendment are recorded as other (expense) income - other within the consolidated statement of operations for the fiscal year ended June 30, 2022.

Additionally, the Company capitalized approximately $100 of deferred financing fees for the fiscal year ended June 30, 2022 in connection with the 2021 Amendment, which are included in other long-term assets within the consolidated balance sheets.

Promissory Note with Related Party

In December 2020, in connection with the share repurchase discussed further in Note 13 - “Capital Stock,” the Company entered into a promissory note for $64,989 with Pride Aggregator L.P. (the “Intercompany Promissory Note”). The Intercompany Promissory Note was payable on-demand and accrued interest at a rate of 0.15% per annum. The Company repaid the Intercompany Promissory Note in full in January 2021, concurrent with the closing of the January 2021 issuance of preferred stock.

The Company had no outstanding letters of credit as of June 30, 2022 or June 30, 2021.

10. LEASES:

Capital Leases

The Company has several lease agreements for equipment that are classified as capital leases. The cost and accumulated depreciation of equipment under capital leases included in the accompanying Consolidated Statements of Financial Position within property and equipment, net were $1,249 and $460, respectively, as of June 30, 2022. Depreciation expense associated with capital leases for the fiscal year ended June 30, 2022 was $284.

The future minimum lease payments under capital leases and the present value of net minimum lease payments as of June 30, 2022 are as follows:

2023	$	323
2024		323
2025		296
2026		44
2027		—
Total minimum lease payments		986
Less: Amount representing interest		(74)
Present value of minimum lease payments		912
Less: Current maturities of capital lease obligations		(283)
Long-term capital lease obligations	$	629

Current maturities of capital lease obligations and long-term capital lease obligations are recorded within accrued expenses and other current liabilities and other long-term liabilities, respectively, within the consolidated balance sheets.

Operating Leases

The Company leases office space (except for its headquarters) and equipment under operating leases expiring on various dates through June 2030, with voluntary renewal options that can extend the term at the Company’s discretion. The following is a schedule of future annual minimum lease payments required under operating leases as of June 30, 2022:

2023	$	6,678
2024		5,132
2025		4,257
2026		4,031
2027		3,721
Thereafter		2,890
Total minimum lease payments		26,709
Less sublease income of leased properties [1]		(7,212)
Net minimum lease payments	$	19,497

[1] Represents receipts for noncancellable subleases at June 30, 2022.

Rent expense for operating leases is accounted for on a straight-line basis. To the extent the rent expense exceeds actual rent payments, the Company records a deferred rent liability. Once the rent payments exceed the straight-line rent expense, the liability is reduced. At June 30, 2022 and 2021, the deferred rent liability was approximately $520 and $5,330, respectively, which is included in accrued expenses and other current liabilities and other long-term liabilities within the consolidated balance sheets. Rent expense for the fiscal years ending June 30, 2022, 2021, and 2020 was approximately $5,452, $5,411, $5,285, respectively.

Exit or Disposal Activities

In the third quarter of fiscal year 2022, as a result and in consideration of the changing use of office space by the workforce amid the impacts of the COVID-19 pandemic, the Company evaluated its existing real estate lease portfolio. This evaluation included the establishment of a formal plan to exit certain leased office spaces that are no longer utilized, which was finalized in the third quarter of fiscal year 2022. The Company recognized a loss on exit of certain leases of $9,055, which is included in general and administrative expenses in the accompanying statement of operations for the fiscal year ended June 30, 2022.

The loss included the present value of the remaining lease obligation on the cease-use date, net of estimated sublease income, as well as the write-off of $4,910 of the carrying value of ceased-use furniture, fixtures, equipment and leasehold improvements offset by $3,250 of deferred rent.

A summary of the exit cost obligation and related activity for the fiscal year ended June 30, 2022 is as follows:

Exit cost obligation at cease-use date in fiscal year 2022	$	7,395
Accretion during fiscal year 2022		57
Net payments made during fiscal year 2022		(1,065)
Exit cost obligation at June 30, 2022	$	6,387

The total exit cost obligation at June 30, 2022 is $6,387, which is included within accrued expenses and other current liabilities and other long-term liabilities on the consolidated balance sheets, respectively, as follows:

Accrued expenses and other current liabilities	$	3,037
Other long-term liabilities		3,350
Total exit cost obligation	$	6,387

11. FAIR VALUE MEASUREMENTS:

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company can access.

Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The fair value of certain assets, such as nonfinancial assets, primarily long-lived assets, goodwill, intangible assets and certain other assets, are recognized or disclosed in connection with impairment evaluations. All non-recurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy.

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, and accounts payable approximated fair value as of June 30, 2022 and June 30, 2021, because of the relatively short maturity of these instruments. Additionally, the Company believes the fair value of the amounts outstanding under the Company's 2021 Credit Facility as of June 30, 2021, approximate carrying value because their variable interest rate terms correspond to the current market terms.

The following table presents information on the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2022 and June 30, 2021:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Funds held for clients—cash and cash equivalents:				
Demand deposit accounts and other cash equivalents	$ 1,549,882	$ —	$ —	$ 1,549,882
Funds held for clients—available-for-sale:				
U.S. Treasury and direct obligations of U.S. government agencies	—	29,077	—	29,077
Corporate bonds	—	110,863	—	110,863
Commercial paper	—	6,641	—	6,641
Other securities	—	19,453	—	19,453
	$ 1,549,882	$ 166,034	$ —	$ 1,715,916

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Funds held for clients—cash and cash equivalents:				
Demand deposit accounts and other cash equivalents	$ 557,366	$ —	$ —	$ 557,366
Funds held for clients—available-for-sale:				
U.S. Treasury and direct obligations of U.S. government agencies	—	28,838	—	28,838
Corporate bonds	—	51,899	—	51,899
Commercial paper	—	21,836	—	21,836
Other securities	—	10,376	—	10,376
	$ 557,366	$ 112,949	$ —	$ 670,315

Available-for-sale securities included in Level 1 are valued using closing prices for identical instruments that are traded on active exchanges. Available-for-sale securities included in Level 2 are valued by reference to quoted prices of similar assets or liabilities in active markets, adjusted for any terms specific to that asset or liability.

12. REDEEMABLE NONCONTROLLING INTERESTS:

In connection with the Apax Acquisition, a subsidiary of the Company issued 200,000 shares of Series A Redeemable Preferred Stock ("Redeemable Preferred Stock") to certain institutional investors, including Apax Partners and its affiliates, a related party, and received proceeds of approximately $194,745, net of $5,255 in issuance costs. Dividends associated with the Redeemable Preferred Stock began accruing daily at the issuance date and were payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. From the issuance date to the second anniversary of the issuance date, the Company had the option to pay the accrued dividends in cash on the applicable dividend payment date or to have such dividends accrue and be added to the then prevailing liquidation preference. Additionally, from the day after the second anniversary of the issuance date through the third anniversary of the issuance date, the Company was required pay at least 50% of the accrued dividends for the applicable dividend payment period in cash. Further, from the day after the third anniversary of the issuance date, the Company was required to pay 100% of the accrued dividends for the applicable dividend payment period in cash. There was a noncompliance penalty if the Company did not meet certain requirements resulting in the prevailing dividend rate automatically increasing by 2% per year and increasing by 1% each six months thereafter until all of the issued and outstanding shares of Redeemable Preferred Stock was redeemed or the event of noncompliance ceases.

The dividends accrued based on a prevailing dividend rate, which was 3-month LIBOR plus a margin and adjusts accordingly. At any point in time, 3-month LIBOR could not be less than 1%. The dividend rate was 3-month LIBOR plus 8.875% from the day after the issuance date to the third anniversary of the issuance date. From the day after the third anniversary of the issuance date until there are no shares of Redeemable Preferred Stock outstanding, the dividend rate was 3-month LIBOR plus 8.375%. In the event that from the day after the second anniversary of the issuance date through the third anniversary of the issuance date the Company elected to pay 100% of the accrued dividend for the applicable dividend payment in cash, the prevailing dividend rate would have been 3-month LIBOR plus 8.375%.

The Redeemable Preferred Stock was redeemable by the Company at any point in time, although payment of a premium was required under certain circumstances. Additionally, the Company could, at its option, redeem for cash any or all of the then outstanding Redeemable Preferred Stock, in whole at any time or in part from time to time, on or after May 2, 2020, at (i) a redemption price per share equal to 102.0% for the period of May 2, 2020 – November 1, 2020; 101.0% for the period November 2, 2020—November 1, 2021; and 100.0% for the period November 2, 2021 and thereafter, plus (ii) the amount of all accrued dividends for the then current and all prior dividend payment periods.

The holders of the Redeemable Preferred Stock had the ability to redeem the stock upon the occurrence of certain events such as a change in control, an IPO, on or after the sixth anniversary of the issue date, or a trigger event, etc. often involving a premium. The Company analyzed the embedded call and put options and concluded they are closely associated with the debt host and therefore do not require bifurcation. Outside of the events mentioned, there is not a mandatory redemption date for the Redeemable Preferred Stock and as a result, the Company concluded that the sixth anniversary of the issuance date was the most probable redemption date prior to the redemption discussed below.

The Company fully redeemed the Series A Redeemable Preferred Stock using a portion of the cash received in its IPO. The redemption price per share was equal to 101% of the liquidation preference, plus the amount of all accrued dividends for the then current and all prior dividend payment periods, or $260,044. As of June 30, 2022, there are no holders of the Company's Series A Redeemable Preferred Stock and all of the Company's subsidiaries are wholly-owned.

Measurement

Accretion of Redeemable Noncontrolling Interests for the fiscal years ended June 30, 2022, 2021, and 2020 includes $11,621, $24,438, and $22,890 of adjustments, respectively, relating to the redemption accretion value adjustments for each reportable period. The Company elected to pay the distributions for the dividend payment date for fiscal year 2020 and the three months ended September 30, 2020 in-kind to preferred shareholders, while 50% of the required distributions for the remaining fiscal year 2021 dividend payment dates were paid in cash with the remaining 50% in-kind to preferred shareholders. These in-kind distributions increase the liquidation preference on each preferred share.

The following table shows the change in the Company's Redeemable Noncontrolling Interests during the periods presented:

Balance at June 30, 2020	$	233,335
Accretion of Redeemable Preferred Stock		24,438
Dividends paid		(9,350)
Balance at June 30, 2021	$	248,423
Accretion of Redeemable Preferred Stock		11,621
Redemption of outstanding shares		(260,044)
Balance at June 30, 2022	$	—

13. CAPITAL STOCK:

Effective following the IPO, the Company amended and restated its certificate of incorporation to effectuate the IPO Stock Split, which authorized the Company to issue 500,000,000 shares of common stock with a par value of $0.001 per share. The Company also authorized 50,000,000 shares of preferred stock with a par value of $0.001 per share. The holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, holders of common stock are entitled to receive ratably such dividends as may be declared from time-to-time by the Board of Directors out of funds legally available for that purpose. In the event of liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. As of June 30, 2022 and June 30, 2021, there were 174,909,539 and 141,097,740 shares of common stock outstanding, respectively, and no preferred stock outstanding.

The Board of Directors is authorized, subject to any limitations prescribed by law, without further vote or action by the stockholders, to issue from time to time shares of preferred stock in one or more series. Each such series of preferred stock will have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as determined by the Board of Directors, which may include, among others, dividend rights, voting rights, redemption and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights.

On October 19, 2021, a secondary offering took place in which certain selling shareholders, including Apax or its affiliates, sold 12,000,000 shares of the Company’s common stock at a public offering price of $32.00 per share. In addition, the selling shareholders granted the underwriters a 30-day option to purchase up to an additional 1,800,000 shares of the Company’s common stock at the same per share price, which was exercised in full on October 26, 2021. The Company did not receive any proceeds from these sales.

On December 29, 2020, the Company completed a private placement of 5,143 shares of Series A Preferred Stock with certain institutional investors, which generated proceeds of approximately $180,005. Each share of Series A Preferred Stock had an initial liquidation preference of $35,000, subject to adjustment. On that same date, subsequent to the Company’s Series A Preferred Stock issuance, the Company used the proceeds from the Series A Preferred Stock issuance and an intercompany promissory note of $64,989 with Pride Aggregator L.P. to repurchase 10,620,260 shares of its common stock at a price of $23.07 per share for approximately $245,000.

On January 20, 2021, the Company completed a follow-on private placement of 2,572 shares of Series A Preferred Stock with certain institutional investors, which generated proceeds of approximately $90,020. The Company incurred approximately $7,253 of expenses associated with both the December 2020 and January 2021 private placements, which were netted against the $270,025 of proceeds received.

The Series A Preferred Stock automatically converted into 11,705,039 shares of the Company’s common stock upon the closing of the Company’s IPO in July 2021, adjusted for the 1,517.18 for 1 IPO Stock Split.

14. EQUITY COMPENSATION PLANS:

All stock-based awards to employees are recognized as compensation costs in the consolidated financial statements based on fair value measured as of the date of grant. These costs are recognized as an expense in the consolidated statements of operations over the requisite service period and increase additional paid-in capital.

The Company recognized stock-based compensation costs and costs relating to liability awards for the fiscal years ended June 30, 2022, 2021, and 2020 of $71,376, $3,983, and $7,961 respectively. Related income tax benefits recognized were $4,352, $43 and $536 for the fiscal years ended June 30, 2022, 2021, and 2020.

Liability incentive awards

Prior to the Apax Acquisition, the Company had issued stock-based compensation awards to employees and outside directors under a plan that provided for the granting of stock options, stock appreciation rights, restricted stock, restricted share units, incentive stock options and other stock-based awards to attract and retain directors, consultants and employees. As part of the Apax Acquisition, vested awards were settled after the closing date at fair value. Unvested awards were cancelled and replaced with cash-based liability awards. Under the terms of the new awards, 50% of the unvested awards were accelerated to vest as of the Apax Acquisition and were paid after the closing date. The remaining 50% of unvested awards are earned and paid to holders according to the vesting dates of the replacement awards. During the fiscal years ended June 30, 2022, 2021, and 2020, $—, $11,605, and $8,957 was paid, respectively.

The Company accounted for the cancellation and replacement of the unvested stock-based compensation awards as a modification, as the classification of the awards was changed from equity to a liability. This modification required an assessment of the fair value of the replacement awards based upon the settlement value. The settlement value of the unvested awards was allocated between the Apax Acquisition purchase price and future compensation expense based upon the pre-acquisition service as a percentage of the greater of the total service period or the original service period of the acquiree’s replaced award. Amounts allocated for future compensation are recognized as compensation costs over the remaining requisite service period and are recorded to general and administrative expense on the consolidated statement of operations.

At June 30, 2022 and 2021, the Company maintained no liability for these awards, and there is no unamortized compensation expense as of June 30, 2022.

The 2019 Plans

Subsequent to the Apax Acquisition, the Company established three stock-based compensation plans (the “2019 Plans”) which provided for grants of incentive units to persons who are associates, officers or directors of the Company or any of its subsidiaries. The 2019 Plans included two cash Long Term Incentive Plans (“LTIPs”) and the Pride Aggregator, L.P. Management Equity Plan (“MEP”).

Long Term Incentive Plan Units converted to Restricted Stock Units

The Company has granted LTIP Units under its Pride Aggregator, L.P. Top Talent Incentive Plan and Sales Top Talent Incentive Plan (“LTIP Participants”). The LTIP Units are phantom awards providing for, at the Company’s discretion, a cash or stock payment (“LTIP Payment”) to participants on certain determination dates, if an IPO occurs and if the LTIP Participant remains employed by the Company on such date. An IPO transaction results in a determination date, for which each LTIP Participant becomes entitled to an LTIP Payment with respect to 20% of the LTIP Participant’s LTIP Units as of the IPO date and 20% on each of four subsequent determination dates six, twelve, eighteen and 24 months following the IPO date. The LTIP Payment is calculated based on the average closing price per IPO Company share for the 10-day trading period ending on the day prior to the applicable payment date. Units of both LTIP plans vest only upon a liquidity event and therefore no compensation expense was recognized for any fiscal year prior to the Company’s IPO.

In connection with the Company’s IPO, the LTIP Units converted to 1,761,578 RSUs, of which 20% of the aggregate dollar value vested upon conversion and was recognized as compensation expense. The remaining aggregate dollar value is being recognized as compensation expense over the requisite two-year service period relating to the LTIP units.

Management Equity Plan Units

Under the terms of the Company's MEP, one-half of the MEP incentive units vest based on an associate's service time. Vesting for the second half of the MEP incentive units is established based on the Company's performance relative to Apax's original invested amount, with the performance calculations defined in the plan triggered by the Company's IPO (implied performance condition). The MEP incentive units are subject to a floor amount established at the grant date, which acts as a participation threshold and permits the award to participate in distributions only to the extent the distribution amount for the units exceed the floor amount. The Company estimated the fair value of the MEP incentive units using the Monte Carlo simulation method.

The MEP time-based incentive units vest 25% on the first anniversary after the vesting commencement date and thereafter in twelve equal installments on each subsequent quarterly anniversary of the vesting commencement date, with 100% vesting of the MEP time-based incentive units occurring on the fourth anniversary of the vesting commencement date. The MEP time-based incentive units are accounted for as equity awards and the compensation expense calculated based upon the fair market value of the MEP time-based incentive units at the grant date is recognized as the MEP time-based incentive units vest.

As a result of the Company's IPO, and due to an election by Apax, the MEP performance-based incentive units converted to time-based incentive units ("Modified MEP Incentive Units"), with 25% vesting upon successive six month anniversary dates for the 24 months beginning on the date of the IPO. The conversion was treated as a modification for accounting purposes, and accordingly, the Company estimated fair value as of the modification date.

The Modified MEP Incentive Units are accounted for as equity awards and the compensation expense calculated based upon the fair value of the Modified MEP Incentive Units at the modification date is recognized as the Modified MEP Incentive Units vest. The Company estimated the fair value of the Modified MEP Incentive Units based upon the IPO Price adjusted for a floor amount established at the grant date and other liquidation preferences in accordance with the terms of the MEP.

Key inputs and assumptions used to estimate the fair value of the MEP time-based incentive units include the exercise price, the option term, the risk-free interest rate over the option's expected term, and the expected volatility. The Company's expected stock price volatility assumption was determined based upon the historical volatility of publicly traded companies similar in nature to the Company. The risk-free interest rate is based on the market yield for a U.S. Treasury security over the expected life. The expected life of the MEP incentive units was an estimated time to a liquidity event. Estimates of fair value are not intended to predict actual future events or the value realized by persons who receive option awards. The assumptions used in the Monte Carlo simulation method are set forth in the following table.

	Time-Based Incentive Units
Expected volatility range of stock	60.0%–65.0%
Expected life of option, range in years	0.67–0.75
Risk-free interest range rate	0.09%–0.12%
Expected dividend yield on stock	0%

The following table presents the MEP incentive unit activity:

	Time-Based Incentive Units			Modified MEP Incentive Units		
In thousands, except unit and per unit data	Number of Units	Weighted Average Floor Price	Weighted Average Fair Value	Number of Units	Weighted Average Floor Price	Weighted Average Fair Value
Outstanding at June 30, 2021	38,079	$ 578	$ 442	36,879	$ 593	$ 379
Granted	—	—	—	—	—	—
Forfeited	(1,023)	1,131	406	(2,144)	665	1,346
Outstanding at June 30, 2022	37,056	$ 563	$ 443	34,735	$ 589	$ 1,423

As of June 30, 2022, there was $3,619 of unrecognized compensation expense for the unvested time-based incentive units that will be recognized over a weighted average period of 1.3 years. At June 30, 2022 and 2021, the number of vested time-based incentive units were 19,965 and 10,142, respectively. The weighted average grant date fair value of time-based incentive units that vested during the fiscal years ended June 30, 2022 and 2021 was $417 and $445, respectively.

As of June 30, 2022, the unrecognized compensation expense related to the unvested Modified MEP Incentive Units was $26,201 that will be recognized over a weighted average period of 1.1 years. At June 30, 2022 and 2021, the number of vested Modified MEP Incentive Units were 9,009 and —, respectively. The weighted average grant date fair value of the Modified MEP Incentive Units vested during the fiscal years ended June 30, 2022 and 2021 was $1,428 and $—, respectively.

2021 Omnibus Incentive Plan

On July 20, 2021, the Company adopted the 2021 Omnibus Incentive Plan (the "2021 Plan"). The Company has reserved 13,800,000 shares of common stock for future issuance under the 2021 Plan pursuant to which employees, consultants and directors of the Company and its affiliates performing services for the Company, including the Company's executive officers, are eligible to receive awards. The 2021 Plan provides for grants of stock options, stock appreciation rights, restricted stock, restricted stock units, bonus stock, dividend equivalents, other stock-based awards, substitute awards, annual incentive awards and performance awards intended to align the interests of participants with those of the Company's shareholders.

Stock Options

In connection with the Company's IPO, the Company granted awards under the 2021 Plan to certain executives consisting of 1,135,144 options to purchase shares of its common stock. Additionally, options were granted in October 2021 in connection with the Company's annual grant and in April 2022. All stock options are non-qualified stock options and expire on the tenth anniversary of the grant date. The following table summarizes option activity for the fiscal year ended June 30, 2022:

In thousands, except unit and per unit data	**Options Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**	**Weighted Average Remaining Contractual Term (In Years)**	**Aggregate Intrinsic Value**
Outstanding at June 30, 2021	—	$ —	$ —	—	$ —
Granted	1,159,520	23.17	9.45	9.07	—
Exercised	—	—	—	—	—
Forfeited and cancelled	(46,741)	23.00	9.36	—	—
Outstanding at June 30, 2022	1,112,779	$ 23.18	$ 9.45	9.07	$ 3,265
Exercisable as of June 30, 2022	—	$ —	$ —	—	$ —

None of the stock options were exercised during the period ended June 30, 2022. Total unrecognized compensation cost related to the unvested stock options is $7,281, which is expected to be recognized over a weighted average period of 2.1 years.

The weighted average grant date fair value was estimated by the Company using the Black-Scholes option pricing model with the assumptions below:

Weighted average exercise price per option	$23.00 - $35.16
Expected volatility range of stock	42.5%
Expected life of option (in years)	5.85
Risk-free interest rate	0.81% - 2.41%
Expected dividend yield on stock	0%
Fair value per option	$9.36 - $14.51

The expected option life represents the period of time the stock options are expected to be outstanding and is based on the "simplified method" allowed under SEC guidance. The Company used the "simplified method" due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. The expected volatility was based on an implied volatility calculation for the Company that closely approximated the average historical and implied volatility of the Company's peer group since the Company had either limited or no publicly traded stock history as of the grant date. The Company does not intend to pay cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero. The risk-free interest rate was based on the U.S. Treasury yield curve at the time of the grant.

Restricted Stock Units

The following table summarizes information related to RSUs granted by the Company. These include grants of LTIP Units that were converted to RSUs as described above, as well as grants made in connection with the Company's IPO and other grants. In connection with the Company's IPO, the Company primarily granted RSUs to its executives, its independent directors, members of its IPO transaction team and senior employees of the Company.

RSUs that were granted as a result of the conversion of the LTIP Units vest over a two-year period, whereas RSUs that were granted at and subsequent to the time of the Company's IPO generally vest over a three-year period.

In thousands, except unit and per unit data	Number of Units	Weighted Average Grant Price
Outstanding, unvested at June 30, 2021	—	$ —
Conversion of LTIP Units	1,761,578	27.01
Granted	1,605,666	29.97
Vested	(701,638)	27.04
Forfeited	(260,122)	28.82
Outstanding, unvested grants at June 30, 2022	2,405,484	$ 28.78

As of June 30, 2022, total unrecognized compensation expense related to the RSUs is $49,218, which is expected to be recognized over a weighted average period of 1.8 years. The total grant date fair value of RSUs vested during the fiscal years ended June 30, 2022 was $18,971.

Employee Stock Purchase Plan

On July 20, 2021, the Company adopted the 2021 Employee Stock Purchase Plan ("ESPP"). The Company has reserved 3,100,000 shares of its common stock for future issuance under the ESPP. The ESPP provides eligible employees with a means of acquiring equity in the Company at a discounted price using their own accumulated payroll deductions. Under the terms of the ESPP, employees can elect to have amounts of their annual compensation withheld, up to a maximum set by the Board of Directors, to purchase shares of Company common stock for a purchase price equal to 85% of the lower of the fair market value per share of Company common stock on (i) the offering date or (ii) the respective purchase date.

The ESPP grants participating employees the right to acquire Company common stock in increments of 1% to 10% of eligible pay, with a maximum contribution of $25 of eligible pay, subject to applicable annual Internal Revenue Service limitations. The first offering period of the Company's ESPP commenced on September 1, 2021 and was four months in duration. Subsequent offering periods will be January 1 through June 30 and July 1 through December 31 of a given year.

The Company records stock-based compensation expense within cost of goods sold, sales and marketing expense, general and administrative expense and research and development expense related to the discount given to the Company's participating employees.

15. NET LOSS PER SHARE:

Basic net loss per share is calculated by dividing net loss attributable to Paycor HCM, Inc. by the weighted average shares of common stock outstanding during the period.

Diluted net loss per share is computed by dividing net loss attributable to Paycor HCM, Inc., adjusted as necessary for the impact of potentially dilutive securities, by the weighted average shares outstanding during the period and the impact of securities that would have a dilutive effect. Potentially dilutive securities during the fiscal years ended June 30, 2022, 2021, and 2020 included RSUs, stock options, Series A Preferred Stock and ESPP purchase rights. Due to the net loss for the fiscal years ended June 30, 2022, 2021, and 2020, any potentially dilutive securities were excluded from the denominator in calculating diluted net loss per share because including them would have had an anti-dilutive effect. Additionally, the Company also excluded stock-based compensation awards representing membership interest units in Pride Aggregator, L.P. for the fiscal years ended June 30, 2022, June 30, 2021, and 2020.

Basic and diluted net loss per share was the same for each period presented, as the inclusion of all potential common shares outstanding would have been anti-dilutive. The following table sets forth the computation of basic and diluted net loss per share:

	Fiscal Year Ended June 30,		
(in thousands, except per share data)	2022	2021	2020
Net loss attributable to Paycor HCM, Inc.	$ (119,638)	$ (96,920)	$ (90,193)
Weighted average outstanding shares:			
Basic and diluted	172,636,523	146,364,225	151,718,000
Basic and diluted net loss per share	$ (0.69)	$ (0.66)	$ (0.59)

16. PROFIT SHARING PLAN:

The Company has a 401(k)-profit sharing plan for the benefit of its employees, substantially all of whom are eligible to participate after meeting minimum age and service requirements. The Company makes matching contributions to the 401(k) plan on behalf of participating employees up to 65% of the first 6% of eligible wages. For the fiscal years ended June 30, 2022, 2021, and 2020, the Company expensed contributions to the plan of approximately $6,073, $2,505, and $3,907, respectively.

17. INCOME TAXES:

The Company's benefit for income tax includes U.S. federal, state, and foreign income taxes. The domestic and foreign components of our loss before income taxes is as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
U.S.	$ (140,021)	$ (94,223)	$ (87,485)
Foreign	1,430	929	—
Loss before income taxes	$ (138,591)	$ (93,294)	$ (87,485)

The components of the Company's income tax benefit for the following periods are as follows:

	Fiscal Year Ended June 30,		
	2022	2021	2020
Federal:			
Current provision	$ 1	$ 9	$ —
Deferred benefit	(29,547)	(18,570)	(16,950)
Federal tax benefit	(29,546)	(18,561)	(16,950)
State:			
Current provision (benefit)	51	140	(1)
Deferred benefit	(1,344)	(2,655)	(3,231)
State tax benefit	(1,293)	(2,515)	(3,232)
Foreign:			
Current provision	314	61	—
Deferred (benefit) provision	(49)	203	—
Foreign tax provision	265	264	—
Total tax benefit	$ (30,574)	$ (20,812)	$ (20,182)

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities are as follows:

	June 30, 2022	June 30, 2021
Deferred tax assets:		
Stock-based compensation	$ 4,497	$ —
Accrued expenses	2,360	1,849
Net operating loss carryforwards	56,089	43,009
Deferred rent	1,093	1,277
Deferred revenue	4,023	4,204
Unrealized gain (loss)	618	(245)
Tax credits	8,457	3,724
Other items	1,279	1,177
Total deferred tax assets	78,416	54,995
Valuation allowance	(744)	(117)
Net deferred tax assets	77,672	54,878
Deferred tax liabilities:		
Software development costs	(9,718)	(7,514)
Deferred contract costs	(39,786)	(27,694)
Property and equipment	(3,432)	(4,883)
Other intangibles	(56,530)	(78,171)
Other	(101)	(302)
Total deferred liabilities	(109,567)	(118,564)
Net deferred tax liabilities	$ (31,895)	$ (63,686)

The Company is in a cumulative three-year loss position. The realization of deferred tax assets is dependent upon the generation of future taxable income. After giving appropriate consideration to the sources of taxable income through the scheduled reversal of deferred tax liabilities, the Company concluded that valuation allowances were only required on a portion of its state and local net operating losses. There is a valuation allowance on state net operating losses (“NOL”) of $744.

The Company has federal NOL carryforwards as of June 30, 2022 and 2021 of approximately $234,806 and $181,686 respectively. The Company has state NOL carryforwards as of June 30, 2022 and 2021 of approximately $211,795 and $156,603, respectively. The federal NOLs not subject to expiration total $181,033 as of June 30, 2022 with the remainder of $53,773 beginning to expire in 2034. The state NOL carryforwards generally expire from 2022 to 2040, except for some states for which NOLs do not expire. The Company also has gross federal research and development tax credit carryforwards as of June 30, 2022 and 2021 of approximately $7,982 and $3,724, respectively, which begin expiring in 2033. The Company has gross state research and development tax credit carryforwards as of June 30, 2022 and 2021 of approximately $982 and $261, respectively, which begin expiring in 2033.

On June 30, 2022, the Company’s liabilities for unrecognized tax benefits, which would impact the Company’s effective tax rate if recognized, are presented below. The Company will include applicable penalties and interest when the benefit is recognized. On June 30, 2022, the unrecognized tax benefits related to uncertain tax positions for state research and development tax credits. The Company does not expect material adjustments to the total amount of uncertain tax positions within the next 12 months, but the outcome of tax matters is uncertain and unforeseen results can occur.

The Company continues to follow its policy of recognizing interest and penalties accrued on tax positions as a component of income tax benefit on the consolidated statements of operations and comprehensive loss. The amount of accrued interest and penalties associated with the Company’s tax positions is immaterial to the consolidated balance sheets. The amount of interest and penalties recognized for the year ended June 30, 2022 was immaterial to the Company’s consolidated statements of operations and comprehensive loss.

	June 30, 2022
Unrecognized tax benefits at the beginning of the year	$ —
Additions for tax positions	97
Additions for tax positions of prior periods	284
Unrecognized tax benefits at the end of the year	$ 381

The Company files income tax returns with the United States federal government and various state jurisdictions. Certain tax years remain open for federal and state tax reporting jurisdictions in which the Company does business due to NOL carryforwards and tax credits utilized from such years or utilized in a period remaining open for audits under normal statute of limitations relating to income tax liabilities. The Company, including its domestic subsidiaries, files a consolidated federal income tax return. For years before fiscal year ended June 30, 2018, the Company is no longer subject to U.S. federal examination. The Internal Revenue Service ("IRS") has the ability to review years prior to fiscal year 2018 to the extent the Company utilized tax attributes carried forward from those prior years. The statute of limitations on state filings is generally three to four years.

A reconciliation of the U.S. federal statutory tax rate to the Company's effective income tax rate for the following periods is presented below:

	Fiscal Year Ended June 30,		
	2022	2021	2020
Federal statutory rate	21.0 %	21.0 %	21.0 %
Research tax credits	3.6 %	— %	— %
State income taxes, net of federal tax benefit	1.7 %	2.7 %	2.9 %
Stock-based compensation	(4.6 %)	(0.9 %)	(1.3 %)
Transaction costs	2.2 %	— %	— %
Other permanent differences	(1.4 %)	(0.5 %)	(0.2 %)
Valuation allowance	(0.4 %)	— %	0.7 %
Effective income tax rate	22.1 %	22.3 %	23.1 %

18. COMMITMENTS AND CONTINGENCIES:

The Company is subject to various claims, litigation, and regulatory compliance matters in the normal course of business. When a loss is considered probable and reasonably estimable, the Company records a liability in the amount of its best estimate for the ultimate loss. The resolution of these claims, litigation and regulatory compliance matters, individually or in the aggregate, is not expected to have a material adverse impact on the Company's consolidated statements of operations, balance sheets or statements of cash flows. These matters are subject to inherent uncertainties and management's view of these matters may change in the future.

19. CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY ONLY):

Paycor HCM, Inc. and Subsidiaries
Parent Company Only
Condensed Balance Sheets
(in thousands)

	June 30, 2022	June 30, 2021
Assets		
Cash and cash equivalents	$ 5,000	$ —
Investment in subsidiary	1,279,731	878,639
Total assets	$ 1,284,731	$ 878,639
Liabilities and Stockholders' Equity		
Total liabilities	$ —	$ —
Total stockholders' equity	1,284,731	878,639
Total liabilities and stockholders' equity	$ 1,284,731	$ 878,639

Paycor HCM, Inc. and Subsidiaries
Parent Company Only
Condensed Statements of Operations and Comprehensive Loss
(in thousands)

	Fiscal Year Ended June 30,		
	2022	2021	2020
Equity in net loss of subsidiary	$ (119,638)	$ (96,920)	$ (90,193)
Net loss attributable to Paycor HCM, Inc.	$ (119,638)	$ (96,920)	$ (90,193)
Other comprehensive (loss) income, net of tax:			
Subsidiaries' other comprehensive (loss) income	$ (2,980)	$ 382	$ 104
Total other comprehensive (loss) income	(2,980)	382	104
Comprehensive loss attributable to Paycor HCM, Inc.	$ (122,618)	$ (96,538)	$ (90,089)

Paycor HCM, Inc. and Subsidiaries
Parent Company Only
Condensed Statements of Cash Flows
(in thousands)

	Fiscal Year Ended June 30,		
	June 30, 2022	June 30, 2021	June 30, 2020
Operating Activities:			
Net loss attributable to Paycor HCM, Inc.	$ (119,638)	$ (96,920)	$ (90,193)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Equity in net loss of subsidiaries	119,638	96,920	90,193
Net cash provided by operating activities	—	—	—
Investing Activities:			
Net cash provided by investing activities	—	—	—
Financing Activities:			
Proceeds from issuance of preferred stock, net of offering costs	—	262,772	—
Purchase of treasury stock at cost	—	(245,074)	—
Proceeds from the issuance of common stock sold in IPO, net of offering costs and underwriting discount	454,915	—	—
Contributions to subsidiaries	(453,102)	(17,698)	—
Proceeds from employee stock purchase plan	3,187	—	—
Net cash provided by financing activities	5,000	—	—
Net increase in cash and cash equivalents	5,000	—	—
Cash and cash equivalents-beginning of period	—	—	—
Cash and cash equivalents-end of period	$ 5,000	$ —	$ —

Description of Business

Paycor HCM, which is controlled by Pride Aggregator L.P., is the indirect controlling shareholder of Paycor. Pride Aggregator L.P. is controlled by a syndication led by Apax.

Paycor HCM was incorporated in Delaware in 2018 and became the ultimate parent of Paycor through the Apax Acquisition. Paycor HCM is a holding company and conducts substantially all of its activities through its subsidiaries and has no operations or significant assets or liabilities other than its investment in its subsidiaries, including Paycor. Accordingly, Paycor HCM is dependent upon distributions from Paycor and other subsidiaries to fund its limited, non-significant activities. However, Paycor's ability to pay dividends or lend to Paycor HCM is limited under the terms of its 2021 Credit Agreement. All obligations under the 2021 Credit Agreement are guaranteed by Pride Guarantor, Inc. and by Paycor. The 2021 Credit Agreement contains covenants limiting Pride Guarantor, Inc.'s and its subsidiaries', including Paycor, ability to, among other things: incur additional indebtedness or other contingent obligations; create liens; make investments, acquisitions, loans and advances; consolidate, merge, liquidate or dissolve; sell, transfer or otherwise dispose of its assets, including capital stock of its subsidiaries; pay dividends on its equity interests or make other payments in respect of capital stock; engage in transactions with affiliates; make payments in respect of subordinated debt; modify organizational documents in a manner that is materially adverse to the lenders under the applicable 2021 Credit Agreement; enter into certain agreements with negative pledge clauses. These covenants are subject to certain customary exceptions and qualifications as described in the 2021 Credit Agreement. For a discussion of the 2021 Credit Agreement, see Note 9 - "Debt Agreements and Letters of Credit."

Basis of Presentation

These condensed financial statements have been presented on a “parent-only” basis. Under a parent-only presentation, Paycor HCM’s investments in subsidiaries are presented under the equity method of accounting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. As such, these parent-only statements should be read in conjunction with the accompanying consolidated financial statements for the Company.

20. SUBSEQUENT EVENT:

On August 7, 2022, the Company entered into a 16-year partnership with the Cincinnati Bengals of the National Football League that grants the Company the exclusive naming rights to Paycor Stadium, home to the Cincinnati Bengals since 2000.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

We have established disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance that material information relating to us, including our consolidated subsidiaries, is made known on a timely basis to management and the Board of Directors. No control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (the “Certifying Officers”), evaluated the design and operating effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2022. Based on this evaluation, the Certifying Officers concluded that, as of June 30, 2022, our disclosure controls and procedures were effective.

Management’s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, management has conducted an assessment, including testing, using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control — Integrated Framework (2013 Framework)*. The Company’s internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our assessment under the criteria established in *Internal Control — Integrated Framework (2013 Framework)*, issued by the COSO, management has concluded that the Company maintained effective internal control over financial reporting as of June 30, 2022.

This Form 10-K does not include an attestation report on internal controls over financial reporting of the Company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies. Additionally, our auditors will not be required to formally opine on the effectiveness of our internal control over financial reporting pursuant to Section 404 until we are no longer an “emerging growth company” as defined in the JOBS Act.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the three months ended June 30, 2022, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

On August 20, 2022, Umang Kajaria, a member of the Board of Directors of Paycor HCM, Inc. (the “Company”), notified the Company of his intention to resign from the Company’s Board of Directors (the “Board”), effective August 20, 2022. Mr. Kajaria has indicated that his departure from the Board was not the result of any disagreement with management or the Board.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by Part III, Item 10, will be included in our Proxy Statement on Schedule 14A prepared in connection with our 2022 Annual Meeting of Stockholders to be held on October 26, 2022 and is incorporated herein by reference. We intend to file the definitive Proxy Statement with the Securities and Exchange Commission not later than 120 days following June 30, 2022.

Item 11. Executive Compensation

Information required by Part III, Item 11, will be included in our Proxy Statement relating to our 2022 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2022, and is incorporated herein by reference.

Item 12. Securities Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except as included below regarding equity compensation plan information, the information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth information as of June 30, 2022 regarding the Company's equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)(1)	Weighted average exercise price of outstanding options, warrants, and rights (b)(2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by stockholders:				
Omnibus Incentive Plan ("2021 Plan")	3,518,263	$23.18	9,932,243	(3)
Employee Stock Purchase Plan ("ESPP")	—	—	2,775,318	(4)
Equity compensation plans not approved by stockholders	—	—	—	
Total	3,518,263	$23.18	12,707,561	

(1) Includes shares of our common stock ("shares") subject to the following outstanding equity awards:

- 1,112,779 stock options; and
- 2,405,484 restricted stock units

(2) The weighted-average exercise price set forth in this column is calculated without regard to restricted stock units, which do not have an exercise price.

(3) This number consists of shares available for issuance as of June 30, 2022 under the 2021 Plan. The number of shares reserved for issuance under the 2021 Plan automatically increases on July 1 of each year in an amount equal to 5% of the total number of shares outstanding on June 30 of the preceding year or a lesser amount as may be determined by our Board of Directors.

(4) This number consists of shares reserved for issuance under the ESPP. The number of shares reserved for issuance under the ESPP automatically increases on January 1 of each year, commencing on January 1, 2022 and continuing through January 1, 2031, in an amount equal to 1% of the total number of shares outstanding on December 31 of the preceding year or a lesser number of shares as may be determined by the Board.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by Part III, Item 13, will be included in our Proxy Statement relating to our 2022 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2022, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by Part III, Item 14, will be included in our Proxy Statement relating to our 2022 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended June 30, 2022, and is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) *Consolidated Financial Statements*

Our Consolidated Financial Statements are set forth in "Item 8 - Financial Statements and Supplementary Data" of this report.

(a)(2) *Financial Statement Schedules*

All other financial statement schedules have been omitted because they are not applicable, not material or the required information is presented in the financial statements or the notes thereto.

(a)(3) *Exhibits*

3.1	Second Amended and Restated Certificate of Incorporation of Paycor HCM, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2021)
3.2	Amended and Restated Bylaws of Paycor HCM, Inc., effective July 23, 2021 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2021)
4.1	Registration Rights Agreement, dated as of December 29, 2020, by and among the Company, the Sponsor Investors and the Preferred Holders (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed on April 26, 2021)
4.2	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities and Exchange Act of 1934 (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 2, 2021)
10.1	Credit Agreement, dated as of June 11, 2021, by and between Pride Guarantor, Inc., Paycor, Inc., the lenders party thereto and PNC Bank, National Association, as administrative agent and collateral agent, as amended from time to time (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 filed on July 12, 2021)
10.2	Director Nomination Agreement, dated as of July 23, 2021, by and among Paycor HCM, Inc. and the other signatories party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2021)
10.3+	Form of Executive Employment Agreement (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 filed on April 26, 2021)
10.4+	Paycor HCM, Inc. 2021 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2021)
10.5+	Paycor HCM, Inc. 2021 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 12, 2021)
10.6+	Form of Board of Directors Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2021)
10.7+	Form of Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2021)
10.8+	Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2021)
10.9+	Executive Severance Plan (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed on April 26, 2021)
10.10+	Executive Change in Control Severance Plan (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 filed on April 26, 2021)
10.11+	Annual Bonus Plan (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 filed on April 26, 2021)
10.12	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 26, 2021)
10.13	Amendment No. 1 to the Credit Agreement, dated September 3, 2021, by and between Paycor, Inc., Pride Guarantor, Inc., the subsidiaries party thereto, the lenders party thereto and PNC Bank, National Association, as administrative agent and collateral agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 3, 2021)
21.1	List of Subsidiaries of Paycor HCM, Inc.
23.1	Consent of Ernst & Young, LLP
31.1	Certification of Principal Executive Officer, Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer, Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer, Pursuant to Rule 18 U.S.C. Section 1350
32.2*	Certification of the Chief Financial Officer, Pursuant to Rule 18 U.S.C. Section 1350
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

+ Indicates a management contract or compensatory plan or arrangement.
* This exhibit is furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

			Paycor HCM, Inc.
Date: August 24, 2022		By:	/s/ RAUL VILLAR JR.
		Name:	Raul Villar Jr.
		Title:	Chief Executive Officer (Principal Executive Officer) and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RAUL VILLAR JR. Raul Villar Jr.	Chief Executive Officer and Director (Principal Executive Officer)	August 24, 2022
/s/ ADAM ANTE Adam Ante	Chief Financial Officer (Principal Financial Officer)	August 24, 2022
/s/ SARAH HAINES Sarah Haines	Chief Accounting Officer (Principal Accounting Officer)	August 24, 2022
/s/ WHITNEY BOUCK Whitney Bouck	Director	August 24, 2022
/s/ KATHLEEN BURKE Kathleen Burke	Director	August 24, 2022
/s/ STEVE COLLINS Steve Collins	Director	August 24, 2022
/s/ JONATHAN CORR Jonathan Corr	Director	August 24, 2022
/s/ SCOTT MILLER Scott Miller	Director	August 24, 2022
/s/ JASON WRIGHT Jason Wright	Director	August 24, 2022