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

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2022

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

For the transition period from _______ to _______

Commission file number 001-40640

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

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

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

As of January 31, 2023, the number of shares of the Registrant’s Common Stock outstanding was 176,438,082 shares.

Table of Contents

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, 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 ongoing effects of inflation, supply chain disruptions, labor shortages and other adverse macroeconomic conditions in the markets in which we and our customers operate.
- The impact of an economic downturn or 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 our Annual Report on Form 10-K, filed with the SEC on August 24, 2022.

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 - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2022 (Unaudited)	June 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 72,277	$ 133,041
Accounts receivable, net	31,912	21,511
Deferred contract costs	45,691	37,769
Prepaid expenses	12,990	9,421
Other current assets	3,956	1,874
Current assets before funds held for clients	166,826	203,616
Funds held for clients	1,183,474	1,715,916
Total current assets	1,350,300	1,919,532
Property and equipment, net	31,989	31,675
Operating lease right-of-use assets	22,553	—
Goodwill	770,120	750,155
Intangible assets, net	305,547	263,069
Capitalized software, net	45,355	40,002
Long-term deferred contract costs	144,214	125,705
Other long-term assets	2,794	1,179
Total assets	$ 2,672,872	$ 3,131,317
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 20,284	$ 13,945
Accrued expenses and other current liabilities	24,862	13,907
Accrued payroll and payroll related expenses	32,350	44,592
Deferred revenue	11,449	11,742
Current liabilities before client fund obligations	88,945	84,186
Client fund obligations	1,187,532	1,719,047
Total current liabilities	1,276,477	1,803,233
Deferred income taxes	22,222	31,895
Long-term operating leases	22,310	—
Other long-term liabilities	83,867	11,458
Total liabilities	1,404,876	1,846,586
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock $0.001 par value per share, 500,000,000 shares authorized, 175,856,650 shares outstanding at December 31, 2022 and 174,909,539 shares outstanding at June 30, 2022	176	175
Treasury stock, at cost, 10,620,260 shares at December 31, 2022 and June 30, 2022	(245,074)	(245,074)
Preferred stock, $0.001 par value, 50,000,000 shares authorized, — shares outstanding at December 31, 2022 and June 30, 2022	—	—
Additional paid-in capital	1,967,352	1,926,800
Accumulated deficit	(451,904)	(395,389)
Accumulated other comprehensive loss	(2,554)	(1,781)
Total stockholders' equity	1,267,996	1,284,731
Total liabilities and stockholders' equity	$ 2,672,872	$ 3,131,317

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Revenues:				
Recurring and other revenue	$ 124,982	$ 102,729	$ 239,151	$ 195,145
Interest income on funds held for clients	7,882	338	12,016	654
Total revenues	132,864	103,067	251,167	195,799
Cost of revenues	46,184	41,082	89,369	86,693
Gross profit	86,680	61,985	161,798	109,106
Operating expenses:				
Sales and marketing	51,913	40,682	100,108	86,470
General and administrative	52,461	44,462	100,372	87,873
Research and development	13,875	10,605	26,277	20,796
Total operating expenses	118,249	95,749	226,757	195,139
Loss from operations	(31,569)	(33,764)	(64,959)	(86,033)
Other (expense) income:				
Interest expense	(404)	(112)	(1,491)	(347)
Other	66	328	511	1,552
Loss before benefit for income taxes	(31,907)	(33,548)	(65,939)	(84,828)
Income tax benefit	(4,444)	(8,084)	(9,424)	(17,328)
Net loss	(27,463)	(25,464)	(56,515)	(67,500)
Less: Accretion of redeemable noncontrolling interests	—	—	—	11,621
Net loss attributable to Paycor HCM, Inc.	$ (27,463)	$ (25,464)	$ (56,515)	$ (79,121)
Basic and diluted net loss attributable to Paycor HCM, Inc. per share	$ (0.16)	$ (0.15)	$ (0.32)	$ (0.46)
Weighted average common shares outstanding:				
Basic and diluted	175,830,554	174,429,903	175,671,565	170,444,536

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Net loss	$ (27,463)	$ (25,464)	$ (56,515)	$ (67,500)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on foreign currency translation	116	(18)	(307)	(171)
Unrealized gain (loss) on available-for-sale securities, net of tax	1,234	(384)	(466)	(445)
Other comprehensive income (loss), net of tax	1,350	(402)	(773)	(616)
Comprehensive loss	(26,113)	(25,866)	(57,288)	(68,116)
Less: Comprehensive income attributable to redeemable noncontrolling interests	—	—	—	11,621
Comprehensive loss attributable to Paycor HCM, Inc.	$ (26,113)	$ (25,866)	$ (57,288)	$ (79,737)

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

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

Three Months Ended December 31, 2021

	Preferred Stock		Series A Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Treasury Stock				
Balance, September 30, 2021	—	$ —	—	$ —	174,429,903	$ 174	$ (245,074)	$ 1,874,040	$ (329,408)	$ 985	$ 1,300,717
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(25,464)	—	(25,464)
Stock-based compensation expense	—	—	—	—	—	—	—	17,215	—	—	17,215
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(402)	(402)
Other	—	—	—	—	—	—	—	4	—	—	4
Balance, December 31, 2021	—	$ —	—	$ —	174,429,903	$ 174	$ (245,074)	$ 1,891,259	$ (354,872)	$ 583	$ 1,292,070

Three Months Ended December 31, 2022

	Preferred Stock		Series A Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Treasury Stock				
Balance, September 30, 2022	—	$ —	—	$ —	175,643,109	$ 176	$ (245,074)	$ 1,947,102	$ (424,441)	$ (3,904)	$ 1,273,859
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(27,463)	—	(27,463)
Stock-based compensation expense	—	—	—	—	—	—	—	20,684	—	—	20,684
Net settlement for taxes	—	—	—	—	—	—	—	(434)	—	—	(434)
Issuance of common stock under employee stock plans	—	—	—	—	213,541	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	—	1,350	1,350
Balance, December 31, 2022	—	$ —	—	$ —	175,856,650	$ 176	$ (245,074)	$ 1,967,352	$ (451,904)	$ (2,554)	$ 1,267,996

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

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

	Six Months Ended December 31, 2021										
	Preferred Stock		Series A Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Treasury Stock				
Balance, June 30, 2021	—	$ —	7,715	$ 262,772	141,097,740	$ 141	$ (245,074)	$ 1,133,399	$ (275,751)	$ 3,152	$ 878,639
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(79,121)	—	(79,121)
Stock-based compensation expense	—	—	—	—	—	—	—	39,027	—	—	39,027
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
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	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(616)	(616)
Other	—	—	—	—	—	—	—	1,947	—	(1,953)	(6)
Balance, December 31, 2021	—	$ —	—	$ —	174,429,903	$ 174	$ (245,074)	$ 1,891,259	$ (354,872)	$ 583	$ 1,292,070

	Six Months Ended December 31, 2022										
	Preferred Stock		Series A Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Treasury Stock				
Balance, June 30, 2022	—	$ —	—	$ —	174,909,539	$ 175	$ (245,074)	$ 1,926,800	$ (395,389)	$ (1,781)	$ 1,284,731
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(56,515)	—	(56,515)
Stock-based compensation expense	—	—	—	—	—	—	—	37,635	—	—	37,635
Net settlement for taxes	—	—	—	—	—	—	—	(1,727)	—	—	(1,727)
Issuance of common stock under employee stock plans	—	—	—	—	947,111	1	—	4,644	—	—	4,645
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(773)	(773)
Balance, December 31, 2022	—	$ —	—	$ —	175,856,650	$ 176	$ (245,074)	$ 1,967,352	$ (451,904)	$ (2,554)	$ 1,267,996

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

Paycor HCM, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Cash flows from operating activities:		
Net loss	$ (56,515)	$ (67,500)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,396	3,448
Amortization of intangible assets and software	61,094	67,653
Amortization of deferred contract costs	21,094	14,062
Stock-based compensation expense	37,635	39,027
Amortization of debt acquisition costs	44	44
Deferred tax benefit	(9,533)	(17,340)
Bad debt expense	2,023	1,086
Loss (gain) on sale of investments	209	(9)
Gain on installment sale	—	(1,359)
Loss on foreign currency exchange	376	216
Loss on lease exit	818	—
Naming rights accretion expense	1,314	—
Change in fair value of deferred consideration	—	(138)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(12,184)	(4,469)
Prepaid expenses and other assets	(3,474)	(6,404)
Accounts payable	5,715	14
Accrued liabilities and other	(21,783)	(8,653)
Deferred revenue	(202)	(709)
Deferred contract costs	(47,525)	(37,693)
Net cash used in operating activities	(18,498)	(18,724)
Cash flows from investing activities:		
Purchases of client funds available-for-sale securities	(320,191)	(75,173)
Proceeds from sale and maturities of client funds available-for-sale securities	214,017	74,909
Purchase of property and equipment	(2,621)	(1,454)
Proceeds from note receivable on installment sale	—	3,040
Acquisition of intangible assets	(5,074)	(3,187)
Acquisition of Talenya Ltd., net of cash acquired	(18,791)	—
Internally developed software costs	(18,672)	(14,170)
Net cash used in investing activities	(151,332)	(16,035)
Cash flows from financing activities:		
Net change in cash and cash equivalents held to satisfy client funds obligations	(527,738)	270,717
Payment of deferred consideration	—	(2,752)
Proceeds from line-of-credit	—	3,500
Repayments of line-of-credit	—	(52,600)
Repayments of debt and capital lease obligations	(140)	—
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 noncontrolling interest)	—	(260,044)
Withholding taxes paid related to net share settlements	(1,727)	—
Proceeds from exercise of stock options	345	—
Proceeds from employee stock purchase plan	4,300	—
Other financing activities	—	(395)
Net cash (used in) provided by financing activities	(524,960)	413,341
Impact of foreign exchange on cash and cash equivalents	(6)	63
Net change in cash, cash equivalents, restricted cash and short-term investments, and funds held for clients	(694,796)	378,645
Cash, cash equivalents, restricted cash and short-term investments, and funds held for clients, beginning of period	1,682,923	560,000
Cash, cash equivalents, restricted cash and short-term investments, and funds held for clients, end of period	$ 988,127	$ 938,645
Supplemental disclosure of non-cash investing, financing and other cash flow information:		
Capital expenditures in accounts payable	$ 68	$ 18
Cash paid for interest	—	154
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	$ 72,277	$ 111,087
Funds held for clients	915,850	827,558
Total cash, cash equivalents, restricted cash and short-term investments, and funds held for clients	$ 988,127	$ 938,645

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

Paycor HCM, Inc. and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements
(all amounts in thousands, except share and per share data)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS:

Paycor HCM, Inc. (“Paycor HCM” or “the Company”) is a leading provider of human capital management (“HCM”) software located primarily in the United States (“U.S.”). Paycor’s solutions target small and medium-sized businesses with 10-1,000 employees. Solutions provided include payroll, human resources (“HR”) services, talent management, workforce management, benefits administration, 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”) by certain investment funds advised by Apax Partners LLP, a leading global private equity advisory firm (“Apax Partners”). 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. As a result of the Apax Acquisition, Paycor is an indirect controlled subsidiary of Paycor HCM.

Initial Public Offering

On July 23, 2021, the Company completed an initial public offering (“IPO”) of 21,275,000 shares of its common stock, $0.001 par value per share, at an offering price of $23.00 per share (the “IPO Price”). In aggregate, proceeds from the IPO were approximately $454,147, which is net of approximately $30,583 in underwriters’ discount and $4,595 of offering costs. During the six months ended December 31, 2021, $3,827 of offering costs were paid. 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 noncontrolling 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 unaudited condensed consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation and consolidation

The accompanying interim unaudited condensed consolidated financial statements of the Company were prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim reporting. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended June 30, 2022 in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 24, 2022. The unaudited condensed consolidated financial statements for interim periods do not include all disclosures required by U.S. GAAP for annual financial statements and are not necessarily indicative of results for any future interim periods and the full fiscal year ending June 30, 2023. Adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of the unaudited condensed consolidated financial position, results of operations and cash flows at the dates and for the periods presented have been included. All intercompany transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of the unaudited condensed 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. 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.

Accounts receivable, net

Accounts receivable balances are shown on the condensed consolidated balance sheets net of the allowance for doubtful accounts of $5,270 and $3,268 as of December 31, 2022 and June 30, 2022, 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.

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 $7,483 and $4,889 for the three months ended December 31, 2022 and 2021, respectively. Advertising and promotion expense totaled approximately $13,401 and $9,875 for the six months ended December 31, 2022 and 2021, respectively.

Stock-based compensation

The Company recognizes all employee and director stock-based compensation as a cost in the unaudited condensed 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.

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. The Company recognized stock-based compensation cost for the three months ended December 31, 2022 and 2021 of $20,684 and $17,215, respectively. The Company recognized stock-based compensation expense for the six months ended December 31, 2022 and 2021 of $37,635 and $39,027, respectively.

Leases

The Company adopted Accounting Standards Update ("ASU") No. 2016-02, Leases ("ASC 842"), as subsequently amended, on July 1, 2022, through the modified retrospective method applied to those contracts that were not completed as of that date. ASC 842 requires entities to recognize lease assets and lease liabilities and disclose key information about leasing arrangements for certain leases. Results for reporting periods beginning after July 1, 2022 are presented under ASC 842, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company's historical accounting treatment.

The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification. Adoption of the new standard resulted in recording additional lease assets and liabilities of $17,457 and $24,626, respectively, as of July 1, 2022. The adoption of the standard did not materially impact our consolidated statements of operations or cash flows. See Note 10 - "Leases" for additional information.

Pending accounting pronouncements

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 unaudited condensed consolidated financial statements, but does not expect adoption of this new standard on July 1, 2023 to have a material impact.

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:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Recurring fees	$ 121,873	$ 99,556	$ 232,935	$ 188,765
Implementation services and other	3,109	3,173	6,216	6,380
Recurring and other revenue	$ 124,982	$ 102,729	$ 239,151	$ 195,145

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:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Balance, beginning of period	$ 16,490	$ 14,811	$ 17,046	$ 16,047
Deferred revenue acquired	293	—	293	—
Deferral of revenue	5,637	5,789	9,907	9,401
Revenue recognized	(5,394)	(5,311)	(10,103)	(10,110)
Impact of foreign exchange	11	—	(106)	(49)
Balance, end of period	$ 17,037	$ 15,289	$ 17,037	$ 15,289

Deferred revenue is recorded within deferred revenue and other long-term liabilities on the unaudited condensed consolidated balance sheets. The Company will recognize deferred revenue of $6,991 in fiscal year 2023, $7,281 in fiscal year 2024, $2,017 in fiscal year 2025 and $748 thereafter.

Deferred contract costs

The following table presents the deferred contract costs balance and related amortization expense for these deferred contract costs.

	As of and for the Three Months Ended December 31, 2022			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	$ 76,894	$ 10,397	$ (4,868)	$ 82,423
Costs to fulfill a contract	98,322	15,358	(6,198)	107,482
Total	$ 175,216	$ 25,755	$ (11,066)	$ 189,905

	As of and for the Three Months Ended December 31, 2021			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	$ 57,977	$ 7,856	$ (3,362)	$ 62,471
Costs to fulfill a contract	69,110	11,499	(4,066)	76,543
Total	$ 127,087	$ 19,355	$ (7,428)	$ 139,014

	As of and for the Six Months Ended December 31, 2022			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	$ 72,342	$ 19,390	$ (9,309)	$ 82,423
Costs to fulfill a contract	91,132	28,135	(11,785)	107,482
Total	$ 163,474	$ 47,525	$ (21,094)	$ 189,905

	As of and for the Six Months Ended December 31, 2021			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	$ 52,926	$ 15,930	$ (6,385)	$ 62,471
Costs to fulfill a contract	62,457	21,763	(7,677)	76,543
Total	$ 115,383	$ 37,693	$ (14,062)	$ 139,014

Deferred contract costs are recorded within deferred contract costs and long-term deferred contract costs on the unaudited condensed 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 unaudited condensed 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 Talenya Ltd.

On October 27, 2022 the Company acquired 100% of the equity interests of Talenya Ltd., an Israeli-based provider of an artificial intelligence-driven solution for talent sourcing and recruiting employees (the “Talenya Acquisition”) for an initial cash purchase price of $20,000, plus up to a maximum of $10,000 in additional cash payments based on the achievement of established earnouts over a two-year period. The acquisition was funded with cash on hand.

The acquisition was accounted for as a business combination. The preliminary purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair value of the total consideration transferred at the date of acquisition.

The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, none of which is deductible for tax purposes. Goodwill consists primarily of the 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 Talenya 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 preliminary purchase price for the Talenya Acquisition has been allocated to individual assets acquired and liabilities assumed as follows:

	October 27, 2022
Fair value of total consideration	$ 27,965
Cash acquired	(174)
Net purchase price	$ 27,791
Assets acquired:	
Accounts receivable	$ 192
Other current assets	105
Property and equipment	13
Technology intangible assets	7,160
Other intangible assets	50
Other non-current assets	979
Total identifiable assets acquired	8,499
Liabilities assumed:	
Accounts payable	(243)
Accrued expenses	(917)
Deferred revenue	(293)
Total identifiable liabilities assumed	(1,453)
Goodwill	20,745
Fair value of total consideration transferred	$ 27,791

The technology intangible assets acquired have a weighted average useful life of 7 years.

The fair value of the contingent consideration was measured at the acquisition date based on management's estimate of future payments and recorded as a liability on the unaudited condensed consolidated balance sheet.

The Company incurred transaction costs of approximately $1,174 related to the Talenya Acquisition for the three and six months ended December 31, 2022. These costs were expensed as incurred in general and administrative expenses within the accompanying unaudited condensed 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 was 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 three months ended December 31, 2022 and 2021 were $— and $2,242, respectively. Contingent payments made for the six months ended December 31, 2022 and 2021 were $4,259 and $2,437, respectively. As of September 30, 2022, all contingent payments have been made.

The acquired customer relationships are recorded as an intangible asset within the unaudited condensed consolidated balance sheet and are being amortized on a straight-line basis over three years. As of December 31, 2022, the weighted average remaining amortization period for these intangible assets was approximately 1.1 years. The contingent payments were recognized when each contingency was resolved and the consideration was paid or became 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:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Demand deposit accounts and other cash equivalents	$ 915,850	$ —	$ —	$ 915,850
U.S. Treasury and direct obligations of U.S. government agencies	72,400	93	(505)	71,988
Corporate bonds	183,182	46	(2,454)	180,774
Commercial paper	—	—	—	—
Other securities	15,184	2	(324)	14,862
	$ 1,186,616	$ 141	$ (3,283)	$ 1,183,474

	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

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 three months December 31, 2022 and 2021 were approximately $70,910 and $34,977, respectively. Proceeds from sales and maturities of investment securities for the six months ended December 31, 2022 and 2021 were approximately $214,017 and $74,909, 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, to the extent they exist, generally result from changes in interest rates rather than credit risk, and therefore does not believe the related investments are other-than-temporarily impaired. Additionally, the Company believes it will recover its cost basis in the securities with unrealized losses and has the ability to hold the securities until they recover in value and had no intent to sell them at December 31, 2022.

Expected maturities as of December 31, 2022 for client fund assets are as follows:

Due within fiscal year 2023	$ 972,519
Due within fiscal year 2024	111,055
Due within fiscal year 2025	54,355
Due within fiscal year 2026	44,127
Due within fiscal year 2027	1,418
Total	$ 1,183,474

6. PROPERTY AND EQUIPMENT, NET:

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

	December 31, 2022	June 30, 2022
Land	$ 3,680	$ 3,680
Land improvements	910	910
Building and improvements	22,845	22,845
Computer, equipment and software	15,977	14,951
Furniture and fixtures	2,248	2,246
Office equipment	2,526	2,538
Leasehold improvements	1,435	1,430
Construction in progress	1,032	—
	50,653	48,600
Accumulated depreciation and amortization	(18,664)	(16,925)
Property and equipment, net	$ 31,989	$ 31,675

Depreciation and amortization of property and equipment was approximately $1,196 and $1,730 for the three months ended December 31, 2022 and 2021, respectively. Depreciation and amortization of property and equipment was approximately $2,396 and $3,448 for the six months ended December 31, 2022 and 2021, respectively.

7. CAPITALIZED SOFTWARE, NET:

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

	December 31, 2022	June 30, 2022
Capitalized software	$ 102,122	$ 83,682
Accumulated amortization	(56,767)	(43,680)
Capitalized software, net	$ 45,355	$ 40,002

Amortization expense for capitalized software was approximately $6,745 and $5,421 for the three months ended December 31, 2022 and 2021, respectively. Amortization expense for capitalized software was approximately $13,151 and $10,241 for the six months ended December 31, 2022 and 2021, respectively.

The following is a schedule of future amortization expense as of December 31, 2022:

2023 (remaining six months)	$ 12,717
2024	20,281
2025	11,032
2026	1,325
2027	—
	$ 45,355

8. GOODWILL AND INTANGIBLE ASSETS:

Changes in the carrying amount of goodwill are presented below:

Balance at June 30, 2022	$	750,155
Talenya Acquisition		20,745
Foreign currency translation		(780)
Balance at December 31, 2022	$	770,120

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. Contractual payments under the naming rights agreement began in August 2022 and end in 2038.

The naming rights have been recorded as an intangible asset within the unaudited condensed consolidated balance sheet in an amount equal to the present value of the future contractual cash flows with an offsetting liability for payments to be made in the future. The intangible asset reflects the naming rights to the Bengals stadium including co-branding and shared promotion, along with the right for the Company to place its logo on and around the stadium.

The discount between the offsetting liability and overall payment obligation is amortized to interest expense over the term of the agreement using the effective interest method. The intangible asset is being amortized over the life of the agreement on a straight-line basis through sales and marketing expense. The liability is included in accrued expenses and other current liabilities and other long-term liabilities within the unaudited condensed consolidated balance sheets.

Components of intangible assets were as follows:

		December 31, 2022		June 30, 2022
Cost:				
Technology	$	149,328	$	142,165
Customer relationships		448,258		443,187
Trade name		105,720		105,672
Naming rights		78,135		—
Total cost	$	781,441	$	691,024
Accumulated amortization:				
Technology	$	(138,409)	$	(135,982)
Customer relationships		(306,048)		(266,129)
Trade name		(29,370)		(25,844)
Naming rights		(2,067)		—
Total accumulated amortization	$	(475,894)	$	(427,955)
Intangible assets, net	$	305,547	$	263,069

Amortization expense for intangible assets was approximately $24,673 and $25,362 for the three months ended December 31, 2022 and 2021, respectively. Amortization expense for intangible assets was approximately $47,943 and $57,412 for the six months ended December 31, 2022 and 2021, respectively.

The following is a schedule of future amortization expense as of December 31, 2022:

2023 (remaining six months)	$	49,414
2024		91,516
2025		37,751
2026		13,100
2027		13,028
Thereafter		100,738
	$	305,547

9. DEBT AGREEMENTS AND LETTERS OF CREDIT:

Credit Agreement

Paycor, Inc. is party to a credit agreement (as amended, the “Credit Agreement”) with PNC Bank, National Association (“PNC”), Fifth Third, National Association, and other lenders, providing a $200,000 senior secured revolving credit facility (the “Revolving Credit Facility”). The Revolving Credit Facility includes an “accordion feature” that allows the Company, under certain circumstances, to increase the size of the Revolving Credit Facility by an additional principal amount of up to $200,000, 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 Credit Agreement. The Revolving Credit Facility will mature on June 11, 2026.

The Company had no outstanding borrowings under the Revolving Credit Facility as of December 31, 2022 or June 30, 2022. Additionally, the Company had no outstanding letters of credit as of December 31, 2022 or June 30, 2022.

10. LEASES:

The Company determines if an arrangement contains a lease at inception. The Company recognizes right-of-use (“ROU”) assets and liabilities associated with leases based on the present value of the future minimum lease payments over the lease term at the later of the commencement date of the lease or July 1, 2022. The Company uses its incremental borrowing rate at the recognition date in determining the present value of future payments for leases that do not have a readily determinable implicit rate. Lease terms reflect options to extend or terminate the lease when it is reasonably certain that the option will be exercised. ROU assets and obligations for short-term leases (leases with an initial term of 12 months or less) are not recognized in the consolidated balance sheet. The Company has agreements that contain lease and non-lease components. Generally, the Company accounts for the lease and non-lease components in the contract as a single lease component.

The Company has various lease agreements for office space and other leases which are classified as operating leases and for equipment which is classified as finance leases. Lease terms may include options to extend or terminate the lease, which are factored into the recognition of ROU assets and lease liabilities when it is reasonably certain that the Company will exercise that option. Lease costs for operating leases, including short-term leases, are recognized over the lease term on a straight-line basis.

The table below presents the Company’s leased assets and related lease liabilities:

Leases	Classification		December 31, 2022
Assets			
Operating leases	Operating lease right-of-use assets	$	22,553
Finance lease assets	Property and equipment, net		660
Liabilities			
Current:			
Operating	Accrued expenses and other current liabilities	$	5,789
Finance	Accrued expenses and other current liabilities		291
Non-current:			
Operating	Long-term operating leases		22,310
Finance	Other long-term liabilities		482

The table below presents the costs associated with the leased assets:

Leases	Classification		Three Months Ended December 31, 2022		Six Months Ended December 31, 2022
Operating lease cost:					
Short-term	General and administrative	$	2	$	11
Long-term	Cost of revenues, Sales and marketing and General and administrative		944		2,329
Finance lease cost:					
Amortization of leased assets	Cost of revenues, Sales and marketing, General and administrative and Research and development		65		130
Interest on lease liabilities	Interest expense		10		21
Total lease cost		$	1,021	$	2,491
Sublease income	General and administrative	$	219	$	451

The future minimum lease payments required under all leases and the present value of net minimum lease payments as of December 31, 2022 are as follows:

Maturity of Lease Liabilities		Operating		Finance
2023 (remaining six months)	$	3,703	$	162
2024		5,687		323
2025		4,853		296
2026		4,644		45
2027		4,315		—
Thereafter		9,372		—
Total minimum lease payments		32,574		826
Less: Amount representing interest		(4,475)		(53)
Present value of minimum lease payments	$	28,099	$	773

The table below summarizes the weighted average remaining lease term and weighted average discount rate used by lease type:

Lease Term and Discount Rate	December 31, 2022
Weighted average remaining lease term:	
Operating leases	7.1 years
Finance leases	2.6 years
Weighted average discount rate:	
Operating leases	3.6 %
Finance leases	5.0 %

The table below summarizes the impact to cash flows related to leases:

	Six Months Ended December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows used for operating leases	$ 4,178
Operating cash flows used for finance leases	21
Financing cash flows used for finance leases	140
Leased assets obtained in exchange for new finance lease liabilities	—
Leased assets obtained in exchange for new operating lease liabilities	6,417

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 December 31, 2022 and June 30, 2022, because of the relatively short maturity of these instruments.

The following table presents information on the Company’s financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and June 30, 2022:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Funds held for clients—cash and cash equivalents:				
Demand deposit accounts and other cash equivalents	$ 915,850	$ —	$ —	$ 915,850
Funds held for clients—available-for-sale:				
U.S. Treasury and direct obligations of U.S. government agencies	—	71,988	—	71,988
Corporate bonds	—	180,774	—	180,774
Commercial paper	—	—	—	—
Other securities	1,499	13,363	—	14,862
	$ 917,349	$ 266,125	$ —	$ 1,183,474

	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

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 July 2021, the Company fully redeemed its outstanding Series A Redeemable Preferred Stock using a portion of the IPO proceeds. 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 December 31, 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 six months ended December 31, 2022 and 2021 includes $— and $11,621 of adjustments, respectively, relating to the redemption accretion value adjustments for each reportable period.

13. CAPITAL STOCK:

The Company's Second Amended and Restated Certificate of Incorporation authorized the issuance of up to 500,000,000 shares of common stock with a par value of $0.001 per share and 50,000,000 shares of preferred stock with a par value of $0.001 per share. As of December 31, 2022 and June 30, 2022, there were 175,856,650 and 174,909,539 shares of common stock outstanding, respectively, and no preferred stock outstanding.

On September 9, 2022, investment funds advised by Apax Partners completed an underwritten public offering of 5,000,000 shares of the Company's common stock at a price to the public of $27.35 per share. The Company did not receive any proceeds from this sale.

On December 6, 2022, investment funds advised by Apax Partners completed an underwritten public offering of 6,000,000 shares of the Company's common stock at a price to the public of $28.60 per share. The Company did not receive any proceeds from this sale.

14. 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 three and six months ended December 31, 2022 and 2021 included RSUs, stock options, Series A Preferred Stock and ESPP purchase rights. Due to the net loss for the three and six months ended December 31, 2022 and 2021, 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 three and six months ended December 31, 2022 and 2021, respectively.

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:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands, except per share data)	**2022**	**2021**	**2022**	**2021**
Net loss attributable to Paycor HCM, Inc.	$ (27,463)	$ (25,464)	$ (56,515)	$ (79,121)
Weighted average outstanding shares:				
Basic and diluted	175,830,554	174,429,903	175,671,565	170,444,536
Basic and diluted net loss per share	$ (0.16)	$ (0.15)	$ (0.32)	$ (0.46)

15. 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 unaudited condensed 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.

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

The following discussion and analysis summarizes the significant factors affecting our unaudited condensed 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 unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this report as well as management's discussion and analysis and audited consolidated financial statements included in our most recent Annual Report on Form 10-K. 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 "Note Regarding Forward-Looking Statements" and other important factors disclosed previously under Item 1A. "Risk Factors" in our most recent Annual Report on Form 10-K and 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.

Overview

We are a leading provider of human capital management ("HCM") software. Our solutions target small and medium-sized businesses with 10-1,000 employees. Our unified, cloud-native platform is designed to empower leaders to build winning teams by modernizing people management. Paycor's modern Software-as-a-Service ("SaaS") HCM solution automates routine management tasks so frontline leaders can focus on the key elements that drive business performance and employee engagement, such as goal setting, coaching and talent development. 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 employee data. Our modern, 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. As of December 31, 2022, approximately 30,000 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's employees. As a result, we increase our recurring revenue as we add more customers, and as our customers add more employees and purchase additional 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 four HCM software bundles and nonrefundable implementation fees, which represented approximately 94% and 95% of total revenue for the three and six months ended December 31, 2022, respectively. In addition, we earn interest income on funds held for clients.

Our go-to-market strategy consists of 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 and geography. Our highly efficient and multi-pronged go-to-market strategy is a key driver of our growth.

The table below sets forth selected results of operations for the three and six months ended December 31, 2022 and 2021.

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Total Revenue	$ 132,864	$ 103,067	$ 251,167	$ 195,799
Loss from Operations	$ (31,569)	$ (33,764)	$ (64,959)	$ (86,033)
Operating Margin	(23.8)%	(32.8)%	(25.9)%	(43.9)%
Adjusted Operating Income*	$ 17,643	$ 10,259	$ 28,056	$ 13,651
Adjusted Operating Income Margin*	13.3 %	10.0 %	11.2 %	7.0 %
Net Loss	$ (27,463)	$ (25,464)	$ (56,515)	$ (67,500)

**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.*

Impact of Adverse Macroeconomic Conditions

Certain macroeconomic conditions initially impacted by the novel coronavirus pandemic ("COVID-19 pandemic"), such as supply chain disruptions and labor shortages, have contributed to inflationary pressures and rising interest rates, all of which are expected to continue to impact our and our customers' businesses for the foreseeable future. Further, it is possible that fiscal or monetary policies adopted in an attempt to curtail the broadening or protracted extension of these negative conditions could lead to an economic slowdown or cause a recession in the United States or global economy. Our business and financial performance may 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 headcount. Our ability to do so will depend on several factors, including the ability to recruit sales staff, the effectiveness of our products, the relative pricing of our products, our competitors' offerings, and the effectiveness of our marketing efforts.

As of December 31, 2022 and 2021, we had approximately 30,000 and 29,000 customers, respectively, representing a period-over-period increase of 3.4%. We define a customer as a parent company grouping, which may include multiple subsidiary client accounts with separate taxpayer identification numbers. We also track client accounts as it provides an alternative measure of the scale of our business and customers.

In addition, we are focused on expanding broker relationships to drive the acquisition of new customers through mutual referrals. Insurance and benefits brokers are trusted advisors to SMBs and are influential in the HCM selection process.

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. We define "effective PEPM," 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. 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. 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. Our net revenue retention has continued to trend favorably and is above 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 fiscal 2019, we acquired Ximble's scheduling solution and in fiscal 2020, we released Paycor Analytics. In fiscal 2021, we released our compensation management product and a full suite of talent management tools, including performance reviews, one-on-one coaching, objectives and key results ("OKRs") and structured goal setting. In fiscal 2022, we introduced OnDemand Pay, expense management and a Developer Portal to enhance Paycor's industry-leading interoperability, making it even easier for clients and partners to seamlessly integrate and sync data between HR and third-party systems. We also released a new payroll-based journal reporting platform to simplify complex staffing reporting requirements for nursing facilities and a predictive resignation feature providing leaders with actionable insights to identify the top drivers of employee resignation. In fiscal 2023, we acquired Talenya's intelligent candidate sourcing technology, now Paycor Smart Sourcing, to enhance our industry-leading talent management solution. We also introduced the COR Leadership Framework, empowering organizations to transform frontline managers into effective leaders through the provision of technology and expertise. As a result of these and other product launches, the total list PEPM and customer-perceived value for our full suite of products continues to increase. 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, 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. In connection with 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 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 the amount originally invested by Pride Aggregator L.P. ("Pride Aggregator"), the investment vehicle controlled by certain investment funds advised by Apax

Partners (the "Apax Funds") through which the Apax Funds acquired their interest in us, with the performance calculations defined in the plan, which were triggered by our IPO (an implied performance condition).

Upon the closing of our IPO, and due to an election by Pride Aggregator, 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.

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. See Note 12 - "Redeemable Noncontrolling Interests" for more information.

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 December 31, 2022, with $5.4 million and $10.1 million of revenue recognized for the three and six months ended December 31, 2022, respectively. Deferred revenue for these nonrefundable upfront fees and recurring subscription services was $15.3 million as of December 31, 2021, with $5.3 million and $10.1 million of revenue recognized for the three and six months ended December 31, 2021, respectively.

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.

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 $6.2 million and $4.1 million of capitalized contract fulfillment costs during the three months ended December 31, 2022 and 2021, respectively, and $11.8 million and $7.7 million of capitalized contract fulfillment costs during the six months ended December 31, 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 $8.0 million and $10.2 million of capitalized internal-use and acquired software costs during the three months ended December 31, 2022 and 2021, respectively, and $15.6 million and $26.8 million of capitalized internal-use and acquired software costs during the six months ended December 31, 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, including amortization expense associated with the naming rights agreement, 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 $4.9 million and $3.4 million of capitalized contract acquisition costs during the three months ended December 31, 2022 and 2021, respectively, and $9.3 million and $6.4 million of capitalized contract acquisition costs during the six months ended December 31, 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 $22.1 million and $20.5 million of intangible assets, excluding acquired software amortized through cost of revenues, during the three months ended December 31, 2022 and 2021, respectively, and $43.4 million and $40.8 million of intangible assets, excluding acquired software amortized through cost of revenues, during the six months ended December 31, 2022 and 2021, respectively. The increase in amortization expense in the three and six months ended December 31, 2022 is primarily 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:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in thousands)	2022	2021	2022	2021
Capitalized software	$ 9,139	$ 6,437	$ 17,742	$ 13,678
Research and development expenses	$ 13,875	$ 10,605	$ 26,277	$ 20,796

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 as well as accretion expense associated with the naming rights liability. 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 unaudited condensed consolidated statements of operations for the periods indicated.

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Consolidated Statement of Operations Data:				
Revenues:				
Recurring and other revenue	$ 124,982	$ 102,729	$ 239,151	$ 195,145
Interest income on funds held for clients	7,882	338	12,016	654
Total revenues	132,864	103,067	251,167	195,799
Cost of revenues	46,184	41,082	89,369	86,693
Gross profit	86,680	61,985	161,798	109,106
Operating expenses:				
Sales and marketing	51,913	40,682	100,108	86,470
General and administrative	52,461	44,462	100,372	87,873
Research and development	13,875	10,605	26,277	20,796
Total operating expenses	118,249	95,749	226,757	195,139
Loss from operations	(31,569)	(33,764)	(64,959)	(86,033)
Interest expense	(404)	(112)	(1,491)	(347)
Other income	66	328	511	1,552
Loss before benefit for income taxes	(31,907)	(33,548)	(65,939)	(84,828)
Income tax benefit	(4,444)	(8,084)	(9,424)	(17,328)
Net loss	$ (27,463)	$ (25,464)	$ (56,515)	$ (67,500)

Comparison of the Three Months Ended December 31, 2022 and December 31, 2021

Revenues

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	$ Change	% Change
Revenues:				
Recurring and other revenue	$ 124,982	$ 102,729	$ 22,253	22 %
Interest income on funds held for clients	7,882	338	7,544	2,232
Total revenues	$ 132,864	$ 103,067	$ 29,797	29 %

Total revenues for the three months ended December 31, 2022 and 2021 were $132.9 million and $103.1 million, respectively. For the three months ended December 31, 2022 and 2021, recurring and other revenue accounted for $125.0 million and $102.7 million, respectively. Additionally, interest income on funds held for clients accounted for $7.9 million and $0.3 million, respectively, for the three months ended December 31, 2022 and 2021. Total revenues increased primarily as a result of a 3.4% increase in customers to approximately 30,000 at December 31, 2022 from approximately 29,000 at December 31, 2021, an increase in the average number of employees per customer, an increase in effective PEPM and an increase in interest income on funds held for clients as discussed below.

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 three months ended December 31, 2022 and 2021 were $1,020.1 million and $932.8 million, respectively.

Cost of Revenues

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	$ Change	% Change
Cost of revenues	$ 46,184	$ 41,082	$ 5,102	12 %
Percentage of total revenues	35 %	40 %		
Gross profit	$ 86,680	$ 61,985	$ 24,695	40 %
Percentage of total revenues	65 %	60 %		

Total cost of revenues for the three months ended December 31, 2022 and 2021 were $46.2 million and $41.1 million, respectively. Our total cost of revenues increased primarily as a result of a $5.1 million increase in employee-related costs to support new customers, which includes $0.3 million of share-based compensation expense, a $2.1 million increase in amortization of deferred contract costs and a $1.3 million increase in amortization expense relating to capitalized software, partially offset by a $3.6 million decrease in amortization expense relating to software acquired in November 2018 upon Apax Partners L.P.'s acquisition of us fully amortizing during the three months ended December 31, 2021.

Operating Expenses

Sales and Marketing

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	$ Change	% Change
Sales and marketing	$ 51,913	$ 40,682	$ 11,231	28 %
Percentage of total revenues	39 %	39 %		

Sales and marketing expenses for the three months ended December 31, 2022 and 2021 were $51.9 million and $40.7 million, respectively. The increase in sales and marketing expenses was primarily the result of a $5.2 million increase in employee-related costs, which includes $0.6 million of share-based compensation expense, a $3.9 million increase in amortization expense associated with the naming rights agreement and advertising expenses, a $1.5 million increase in amortization expense associated with costs to obtain a contract, a $0.3 million increase in professional services and a $0.3 million increase in travel and event related expenses.

General and Administrative

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	$ Change	% Change
General and administrative	$ 52,461	$ 44,462	$ 7,999	18 %
Percentage of total revenues	39 %	43 %		

General and administrative expenses for the three months ended December 31, 2022 and 2021 were $52.5 million and $44.5 million, respectively. The increase in general and administrative expenses was primarily driven by a $2.9 million increase in professional services, consulting fees and other costs, a $2.6 million increase in employee-related costs, which includes $1.1 million of share-based compensation expense, a $1.6 million increase in intangible amortization expense primarily associated with an asset acquisition completed in February 2021, including the capitalization of earnout payments, and a $0.4 million increase in licensing costs.

Research and Development

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	$ Change	% Change
Research and development	$ 13,875	$ 10,605	$ 3,270	31 %
Percentage of total revenues	10 %	10 %		

Research and development expenses for the three months ended December 31, 2022 and 2021 were $13.9 million and $10.6 million, respectively. The increase in research and development expenses was primarily the result of a $2.4 million increase in employee-related costs, which includes $1.5 million of share-based compensation expense, a $0.5 million increase in licensing fees and a $0.3 million increase in professional services, consulting fees and other costs.

Interest Expense

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	$ Change	% Change
Interest expense	$ 404	$ 112	$ 292	261 %
Percentage of total revenues	<1 %	<1 %		

Interest expense for the three months ended December 31, 2022 and 2021 was $0.4 million and $0.1 million, respectively. The increase in interest expense was primarily the result of accretion expense associated with the naming rights agreement.

Other income

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	$ Change	% Change
Other (expense) income	$ 66	$ 328	$ (262)	(80)%

Other income for the three months ended December 31, 2022 and 2021 was $0.1 million and $0.3 million, respectively.

Income tax benefit

Income tax benefit for the three months ended December 31, 2022 and 2021 was $4.4 million and $8.1 million, respectively, reflecting effective income tax rates for those periods of 13.9% and 24.1%, respectively. The decrease in income tax benefit is primarily related to a lower loss before benefit for income taxes recognized during the current period and an increase in expense related to executive compensation for which no income tax benefit can be recognized for the three months ended December 31, 2022.

Comparison of the Six Months Ended December 31, 2022 and December 31, 2021

Revenues

(in thousands)	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021	$ Change	% Change
Revenues:				
Recurring and other revenue	$ 239,151	$ 195,145	$ 44,006	23 %
Interest income on funds held for clients	12,016	654	11,362	1,737
Total revenues	$ 251,167	$ 195,799	$ 55,368	28 %

Total revenues for the six months ended December 31, 2022 and 2021 were $251.2 million and $195.8 million, respectively. For the six months ended December 31, 2022 and 2021, recurring and other revenue accounted for $239.2 million and $195.1 million, respectively. Additionally, interest income on funds held for clients accounted for $12.0 million and $0.7 million, respectively, for the six months ended December 31, 2022 and 2021. Total revenues increased primarily as a result of a 3.4% increase in customers to approximately 30,000 at December 31, 2022 from approximately 29,000 at December 31, 2021, an increase in the average number of employees per customer, an increase in effective PEPM and an increase in interest income on funds held for clients as discussed below.

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 six months ended December 31, 2022 and 2021 were $970.1 million and $846.3 million, respectively.

Cost of Revenues

	Six Months Ended			
(in thousands)	December 31, 2022	December 31, 2021	$ Change	% Change
Cost of revenues	$ 89,369	$ 86,693	$ 2,676	3 %
Percentage of total revenues	36 %	44 %		
Gross profit	$ 161,798	$ 109,106	$ 52,692	48 %
Percentage of total revenues	64 %	56 %		

Total cost of revenues for the six months ended December 31, 2022 and 2021 were $89.4 million and $86.7 million, respectively. Our total cost of revenues increased primarily as a result of a $10.5 million increase in employee-related costs to support new customers, including $0.8 million of share-based compensation expense, a $4.1 million increase in amortization of deferred contract costs and a $2.9 million increase in amortization expense relating to capitalized software, partially offset by a $14.2 million decrease in amortization expense relating to software acquired in November 2018 which had fully amortized during the six months ended December 31, 2021.

Operating Expenses

Sales and Marketing

	Six Months Ended			
(in thousands)	December 31, 2022	December 31, 2021	$ Change	% Change
Sales and marketing	$ 100,108	$ 86,470	$ 13,638	16 %
Percentage of total revenues	40 %	44 %		

Sales and marketing expenses for the six months ended December 31, 2022 and 2021 were $100.1 million and $86.5 million, respectively. The increase in sales and marketing expenses was primarily the result of a $5.6 million increase in amortization expense associated with the naming rights agreement and advertising expenses, a $2.9 million increase in amortization expense associated with costs to obtain a contract, a $2.6 million increase in employee-related costs, which includes a $5.7 million decrease in share-based compensation expense, a $1.5 million increase in travel and event related expenses and a $0.7 million increase in professional services, consulting fees and other costs.

General and Administrative

	Six Months Ended			
(in thousands)	December 31, 2022	December 31, 2021	$ Change	% Change
General and administrative	$ 100,372	$ 87,873	$ 12,499	14 %
Percentage of total revenues	40 %	45 %		

General and administrative expenses for the six months ended December 31, 2022 and 2021 were $100.4 million and $87.9 million, respectively. The increase in general and administrative expenses was primarily driven by a $5.1 million increase in professional services, consulting fees and other costs, a $3.5 million increase in employee-related costs, which includes $1.5 million of share-based compensation expense, a $2.6 million increase in intangible amortization expense primarily associated with an asset acquisition completed in February 2021, including the capitalization of earnout payments, and a $0.7 million increase in licensing costs.

Research and Development

	Six Months Ended			
(in thousands)	December 31, 2022	December 31, 2021	$ Change	% Change
Research and development	$ 26,277	$ 20,796	$ 5,481	26 %
Percentage of total revenues	10 %	11 %		

Research and development expenses for the six months ended December 31, 2022 and 2021 were $26.3 million and $20.8 million, respectively. The increase in research and development expenses was primarily the result of a $4.2 million increase in employee-related costs, including a $2.0 million increase in share-based compensation expense, a $0.9 million increase in licensing fees and a $0.4 million increase in professional services, consulting fees and other costs.

Interest Expense

	Six Months Ended			
(in thousands)	December 31, 2022	December 31, 2021	$ Change	% Change
Interest expense	$ 1,491	$ 347	$ 1,144	330 %
Percentage of total revenues	<1 %	<1 %		

Interest expense for the six months ended December 31, 2022 and 2021 was $1.5 million and $0.3 million, respectively. The increase in interest expense was primarily the result of accretion expense associated with the naming rights agreement.

Other income

	Six Months Ended			
(in thousands)	December 31, 2022	December 31, 2021	$ Change	% Change
Other income	$ 511	$ 1,552	$ (1,041)	(67)%

Other income for the six months ended December 31, 2022 and 2021 was $0.5 million and $1.6 million, respectively. Other income for the six months ended December 31, 2022 primarily consists of interest income earned on operating cash. Other income for the six months ended December 31, 2021 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.

Income tax benefit

Income tax benefit for the six months ended December 31, 2022 and 2021 was $9.4 million and $17.3 million, respectively, reflecting effective tax rates for those periods of 14.3% and 20.4%, respectively. The decrease in income tax benefit is primarily related to a lower loss before benefit for income taxes recognized during the current period and an increase in expense related to executive compensation for which no income tax benefit can be recognized for the six months ended December 31, 2022.

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 expense, 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 $90.1 million and $68.7 million, or 67.8% and 66.6% of total revenue, for the three months ended December 31, 2022 and 2021, respectively. Adjusted Gross Profit was $168.5 million and $129.2 million, or 67.1% and 66.0% of total revenues, for the six months ended December 31, 2022 and 2021, respectively. Adjusted Gross Profit increased for the three and six months ended December 31, 2022, primarily driven by the increase in revenue from customer growth, partially offset by additional employee-related costs to support new customers, amortization of costs to fulfill contracts within cost of revenues and amortization of capitalized software.

	Three Months Ended		Six Months Ended	
(in thousands)	**December 31, 2022**	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**
Gross Profit*	$ 86,680	$ 61,985	$ 161,798	$ 109,106
Gross Profit Margin	*65.2 %*	*60.1 %*	*64.4 %*	*55.7 %*
Amortization of intangible assets	1,300	4,862	2,428	16,584
Stock-based compensation expense	2,105	1,838	4,315	3,495
Adjusted Gross Profit*	$ 90,085	$ 68,685	$ 168,541	$ 129,185
Adjusted Gross Profit Margin	*67.8 %*	*66.6 %*	*67.1 %*	*66.0 %*

* *Gross Profit and Adjusted Gross Profit are burdened by depreciation expense of $0.5 million and $0.7 million for the three months ended December 31, 2022 and 2021, respectively, and $0.9 million and $1.4 million for the six months ended December 31, 2022 and 2021, respectively. Gross Profit and Adjusted Gross Profit are burdened by amortization of capitalized software of $6.7 million and $5.4 million for the three months ended December 31, 2022 and 2021, respectively, and $13.2 million and $10.2 million for the six months ended December 31, 2022 and 2021, respectively. Gross Profit and Adjusted Gross Profit are burdened by amortization of deferred contract costs of $6.2 million and $4.1 million for the three months ended December 31, 2022 and 2021, respectively, and $11.8 million and $7.7 million for the six months ended December 31, 2022 and 2021, respectively.*

Adjusted Operating Income

We define Adjusted Operating Income as loss from operations before amortization of acquired intangible assets and naming rights, stock-based compensation expense, 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 $17.6 million and $10.3 million for the three months ended December 31, 2022 and 2021, respectively. Adjusted Operating Income was $28.1 million and $13.7 million for the six months ended December 31, 2022 and 2021, respectively. Adjusted Operating Income increased for the three and six months ended December 31, 2022 primarily driven by an increase in total revenues, 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 deferred contract costs and capitalized software.

	Three Months Ended		**Six Months Ended**	
(in thousands)	**December 31, 2022**	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**
Loss from Operations	$ (31,569)	$ (33,764)	$ (64,959)	$ (86,033)
Operating Margin	*(23.8)%*	*(32.8)%*	*(25.9)%*	*(43.9)%*
Amortization of intangible assets	24,673	25,362	47,943	57,412
Stock-based compensation expense	20,684	17,215	37,635	39,027
Loss on lease exit*	309	—	818	—
Corporate adjustments**	3,546	1,446	6,619	3,245
Adjusted Operating Income	$ 17,643	$ 10,259	$ 28,056	$ 13,651
Adjusted Operating Income Margin	*13.3 %*	*10.0 %*	*11.2 %*	*7.0 %*

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

** *Corporate adjustments for the three and six months ended December 31, 2022 relate to costs associated with secondary offerings completed in December 2022 ("December 2022 Secondary Offering") and September 2022 ("September 2022 Secondary Offering") of $0.7 million and $2.2 million, respectively, professional, consulting, and other costs of $1.5 million and $2.5 million, respectively, and transaction expenses and other costs of $1.3 million and $1.9 million, respectively. Corporate adjustments for the three and six months ended December 31, 2021 relate to certain restructuring costs of $0.2 million and $0.2 million, respectively, 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 $0.2 million and $2.0 million, respectively, and costs associated with a secondary offering completed in October 2021 ("October 2021 Secondary Offering") of $1.0 million and $1.0 million, respectively.*

Adjusted Operating Expenses

We define Adjusted Sales and Marketing expense as sales and marketing expenses before amortization of naming rights, stock-based compensation expense 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 compensation expense, exit costs 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 compensation expense 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 $42.0 million and $32.6 million for the three months ended December 31, 2022 and 2021, respectively, and $81.9 million and $64.7 million for the six months ended December 31, 2022 and 2021, respectively. Adjusted Sales and Marketing expense increased for the three and six months ended December 31, 2022, primarily driven by expanding our sales coverage, an increase in advertising expense, an increase in amortization of costs to obtain contracts and an increase in travel and event related expenses.

Adjusted General and Administrative expense was $19.2 million and $16.4 million for the three months ended December 31, 2022 and 2021, respectively, and $36.9 million and $32.8 million for the six months ended December 31, 2022 and 2021, respectively. Adjusted General and Administrative expense increased for the three and six months ended December 31, 2022, primarily driven by an increase in professional services, consulting fees and other costs and additional employee-related costs.

Adjusted Research and Development expense was $11.2 million and $9.5 million for the three months ended December 31, 2022 and 2021, respectively, and $21.7 million and $18.1 million for the six months ended December 31, 2022 and 2021, respectively. Adjusted Research and Development expense increased for the three and six months ended December 31, 2022, primarily driven by an increase in employee-related costs, an increase in licensing fees and an increase in professional services, consulting fees and other costs.

(in thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Sales and Marketing expense	$ 51,913	$ 40,682	$ 100,108	$ 86,470
Amortization of intangible assets	(1,240)	—	(2,067)	—
Stock-based compensation expense	(8,663)	(8,110)	(16,097)	(21,756)
Corporate adjustments*	—	—	—	(53)
Adjusted Sales and Marketing expense	$ 42,010	$ 32,572	$ 81,944	$ 64,661
General and Administrative expense	$ 52,461	$ 44,462	$ 100,372	$ 87,873
Amortization of intangible assets	(22,133)	(20,500)	(43,448)	(40,828)
Stock-based compensation expense	(7,261)	(6,113)	(12,597)	(11,101)
Loss on lease exit**	(309)	—	(818)	—
Corporate adjustments***	(3,546)	(1,446)	(6,619)	(3,192)
Adjusted General and Administrative expense	$ 19,212	$ 16,403	$ 36,890	$ 32,752
Research and Development expense	$ 13,875	$ 10,605	$ 26,277	$ 20,796
Stock-based compensation expense	(2,655)	(1,154)	(4,626)	(2,675)
Adjusted Research and Development expense	$ 11,220	$ 9,451	$ 21,651	$ 18,121

* *Corporate adjustments for the six months ended December 31, 2021 relate to costs associated with becoming a public company.*

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

*** *Corporate adjustments for the three and six months ended December 31, 2022 relate to costs associated with the December 2022 Secondary Offering and the September 2022 Secondary Offering of $0.7 million and $2.2 million, respectively, professional, consulting, and other costs of $1.5 million and $2.5 million, respectively, and transaction expenses and other costs of $1.3 million and $1.9 million, respectively. Corporate adjustments for the three and six months ended December 31, 2021 relate to certain restructuring costs of $0.2 million and $0.2 million, respectively, 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 $0.2 million and $2.0 million, respectively, and costs associated with the October 2021 Secondary Offering of $1.0 million and $1.0 million for the three and six months ended December 31, 2021, respectively.*

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 and naming rights, accretion expense associated with the naming rights, stock-based compensation expense, 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 by applying an adjusted effective income 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 $13.6 million and $8.0 million for the three months ended December 31, 2022 and 2021, respectively, and was $21.9 million and $10.3 million for the six months ended December 31, 2022 and 2021, respectively. Adjusted Net Income Attributable to Paycor HCM, Inc. increased for the three and six months ended December 31, 2022, primarily driven by an increase in total revenues, 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 deferred contract costs and capitalized software.

	Three Months Ended		Six Months Ended	
(in thousands)	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Net loss before benefit for income taxes	$ (31,907)	$ (33,548)	$ (65,939)	$ (84,828)
Loss on debt amendment	—	—	—	35
Amortization of intangible assets	24,673	25,362	47,943	57,412
Naming rights accretion expense	421	—	1,314	—
Gain on installment sale	—	—	—	(1,359)
Stock-based compensation expense	20,684	17,215	37,635	39,027
Loss on lease exit*	309	—	818	—
Corporate adjustments**	3,546	1,446	6,619	3,245
Non-GAAP adjusted income before applicable income taxes	17,726	10,475	28,390	13,532
Income tax effect on adjustments***	(4,077)	(2,514)	(6,530)	(3,248)
Adjusted Net Income Attributable to Paycor HCM, Inc.	$ 13,649	$ 7,961	$ 21,860	$ 10,284
Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share	$ 0.08	$ 0.05	$ 0.12	$ 0.06
Adjusted shares outstanding****	176,211,150	175,075,956	176,072,284	172,368,220

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

*** Corporate adjustments for the three and six months ended December 31, 2022 relate to costs associated with the December 2022 Secondary Offering and the September 2022 Secondary Offering of $0.7 million and $2.2 million, respectively, professional, consulting, and other costs of $1.5 million and $2.5 million, respectively, and transaction expenses and other costs of $1.3 million and $1.9 million, respectively. Corporate adjustments for the three and six months ended December 31, 2021 relate to certain restructuring costs of $0.2 million and $0.2 million, respectively, 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 $0.2 million and $2.0 million, respectively, and costs associated with the October 2021 Secondary Offering of $1.0 million and $1.0 million for the three and six months ended December 31, 2021, respectively.*

**** Non-GAAP adjusted income before applicable income taxes is tax effected using an adjusted effective income tax rate of 23.0% for the three and six months ended December 31, 2022, respectively, and 24.0% for the three and six months ended December 31, 2021, respectively.*

***** The adjusted shares outstanding for the three and six months ended December 31, 2022 are based on the if-converted method and include potentially dilutive securities that are excluded from the U.S. GAAP dilutive net income per share calculation because including them would have an anti-dilutive effect. The adjusted shares outstanding for the three months ended December 31, 2021 are based on the if-converted method and include potentially dilutive securities that are excluded from the U.S. GAAP dilutive net income per share calculation because including them would have an anti-dilutive effect. The adjusted shares outstanding for the six months ended December 31, 2021 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 the U.S. GAAP dilutive net income per share calculation because including them would have an anti-dilutive effect.*

Liquidity and Capital Resources

General

As of December 31, 2022, our principal sources of liquidity were cash and cash equivalents totaling $72.3 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 December 31, 2022, our cash and cash equivalents principally included demand deposit 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 December 31, 2022, we had deferred revenue of $17.0 million, of which $11.4 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.

Revolving Credit Facility

Paycor, Inc. is party to a credit agreement (as amended, the "Credit Agreement") with PNC Bank, National Association ("PNC"), Fifth Third, National Association, and other lenders, providing a $200.0 million senior secured revolving credit facility (the "Revolving Credit Facility"). The Revolving Credit Facility includes an "accordion feature" that allows us, under certain circumstances, to increase the size of the Revolving Credit Facility by an additional principal amount of up to $200.0 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 Credit Agreement. The Revolving Credit Facility will mature on June 11, 2026.

Borrowings under the Revolving Credit Facility, if any, have variable interest rates. The variable interest rates equal, at our 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 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 December 31, 2022, we were in compliance with all covenants under the Credit Agreement.

Cash Flows

The following table presents a summary of our unaudited condensed consolidated cash flows from operating, investing and financing activities for the six months ended December 31, 2022 and 2021.

	Six Months Ended	
(in thousands)	**December 31, 2022**	**December 31, 2021**
Net cash used in operating activities	$ (18,498)	$ (18,724)
Net cash used in investing activities	(151,332)	(16,035)
Net cash (used in) provided by financing activities	(524,960)	413,341
Impact of foreign exchange on cash and cash equivalents	(6)	63
Net change in cash and cash equivalents	(694,796)	378,645
Cash and cash equivalents at beginning of period	1,682,923	560,000
Cash and cash equivalents at end of period	$ 988,127	$ 938,645

Operating Activities

Net cash used in operating activities was $18.5 million and $18.7 million for the six months ended December 31, 2022 and 2021, respectively. The change in operating activities for the six months ended December 31, 2022 reflects a decrease in changes in assets and liabilities, partially offset by a decrease in net loss and an increase in adjustments to add back non-cash items.

Investing Activities

Net cash used in investing activities was $151.3 million and $16.0 million, for the six months ended December 31, 2022 and 2021, respectively. The change in investing activities for the six months ended December 31, 2022 was primarily attributable to the timing of proceeds and purchases within our client funds portfolio as well as our acquisition of Talenya.

Financing Activities

Net cash used in financing activities was $525.0 million for the six months ended December 31, 2022 and consisted primarily of a decrease in funds held to satisfy client fund obligations. Net cash provided by financing activities was $413.3 million for the six months ended December 31, 2021 and consisted primarily of an increase in funds held to satisfy client fund obligations and 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

Our principal commitments at December 31, 2022 primarily consist of leases for office space. Except for the naming rights agreement, which is discussed in “Note 8. Goodwill and Intangible Assets” in the notes to our unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q and throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations, there have been no material changes to our contractual obligations disclosed in the contractual obligations section of Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on 10-K that was filed with the SEC on August 24, 2022 (“Form 10-K”). For additional information regarding our leases, long-term debt and our commitments and contingencies, see “Note 10. Leases”, “Note 9. Debt Agreements and Letters of Credit” and “Note 18. Commitments and Contingencies” in the Form 10-K and “Note 9. Debt Agreements and Letters of Credit” and “Note 15. Commitments and Contingencies” in the notes to our unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q.

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 currently qualify as an "emerging growth company" (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) 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 annual reports and proxy statements, exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation and stockholder 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.

Effective June 30, 2023 (which is the last day of our fiscal year 2023), we will no longer qualify as an emerging growth company as a result of the aggregate value of our outstanding common stock held by non-affiliates as measured on the last day of our second fiscal quarter (December 31, 2022) being at least $700.0 million, and therefore, we will no longer be able to avail ourselves of certain exemptions from various reporting requirements, as discussed above, and will be required to transition to the reporting and other corporate governance requirements that apply to non-emerging growth companies.

Critical Accounting Policies and Significant Judgments and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these unaudited condensed consolidated 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 in the critical accounting policies and estimates section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K. There have been no material changes to the critical accounting policies disclosed in the Form 10-K, except as described in Note 2 to our unaudited condensed consolidated financial statements: "Summary of Significant Accounting Policies."

Adoption of Accounting Pronouncements

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

Item 3. 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 unaudited condensed 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 three and six months ended December 31, 2022, a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our unaudited condensed consolidated financial statements.

Interest Rate Risk

As of December 31, 2022, we had cash and cash equivalents totaling $72.3 million and funds held for clients of $1,183.5 million. We deposit our cash and cash equivalents and significant portions of our funds held for clients in demand deposit accounts with various financial institutions. We invest 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 December 31, 2022.

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

At December 31, 2022, we had no outstanding debt under our Revolving 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.

Impact of Inflation

While inflation may impact our revenues and costs of revenues, we believe the effects of inflation, if any, have not had a direct, material impact on our results of operations and financial condition to date. 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 the Federal Reserve continues to raise 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. However, the cost to us of any future borrowings under our Revolving Credit Facility would increase in a rising interest rate environment since borrowings under that facility bear interest at variable rates at the Company's option based on certain benchmark interest rates (e.g. the Federal funds rate or LIBOR) plus a spread, or if higher, the prime rate. As of December 31, 2022, we had no outstanding borrowings under our Revolving Credit Facility.

Item 4. 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 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 December 31, 2022. Based on this evaluation, the Certifying Officers concluded that, as of December 31, 2022, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the three months ended December 31, 2022, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

From time to time, we may become involved in 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 15. Commitments and Contingencies.”

Item 1A. Risk Factors

There have been no material changes from the information set forth in “Item 1A. Risk Factors” in our Annual Report on Form 10-K filed with the SEC on August 24, 2022.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

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)
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)

* This exhibit is furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") 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, as amended or the Exchange Act, except as expressly set forth by specific reference in such filing.

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:	February 10, 2023	By:	/s/ ADAM ANTE
		Name:	Adam Ante
		Title:	Chief Financial Officer (Principal Financial Officer)
Date:	February 10, 2023	By:	/s/ SARAH HAINES
		Name:	Sarah Haines
		Title:	Chief Accounting Officer (Principal Accounting Officer)

Exhibit 31.1

Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Raul Villar Jr., certify that:

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

February 10, 2023	/s/ RAUL VILLAR JR.
	Raul Villar Jr.
	Chief Executive Officer and Director

Exhibit 31.2

Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Adam Ante, certify that:

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

February 10, 2023	/s/ ADAM ANTE
	Adam Ante
	Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer
Pursuant to Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of Paycor HCM, Inc. (the "Company") for the period ended December 31, 2022, as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Raul Villar Jr., Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 10, 2023

/s/ RAUL VILLAR JR.
Raul Villar Jr.
Chief Executive Officer and Director

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of Paycor HCM, Inc. (the “Company”) for the period ended December 31, 2022, as filed with the U.S. Securities and Exchange Commission (the “Report”), I, Adam Ante, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 10, 2023

/s/ ADAM ANTE
Adam Ante
Chief Financial Officer