

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

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

For the transition period from _____ to _____

Commission File Number: 001-36393

Paycom Software, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0957485
(I.R.S. Employer
Identification Number)

7501 W. Memorial Road
Oklahoma City, Oklahoma 73142
(Address of principal executive offices, including zip code)

(405) 722-6900
(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, \$0.01 par value	PAYC	New York Stock Exchange

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

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

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

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

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

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

As of October 24, 2019, there were 58,399,009 shares of common stock, par value of \$0.01 per share, outstanding, including 741,604 shares of restricted stock.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 108,127	\$ 45,718
Accounts receivable	2,609	3,414
Prepaid expenses	12,724	7,658
Inventory	700	797
Income tax receivable	9,512	3,962
Deferred contract costs	43,385	35,286
Current assets before funds held for clients	177,057	96,835
Funds held for clients	835,918	967,787
Total current assets	1,012,975	1,064,622
Property and equipment, net	224,035	176,962
Goodwill	51,889	51,889
Long-term deferred contract costs	272,783	225,459
Other assets	30,345	2,994
Total assets	\$ 1,592,027	\$ 1,521,926
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,693	\$ 6,288
Accrued commissions and bonuses	8,432	10,671
Accrued payroll and vacation	17,672	10,741
Deferred revenue	10,634	8,980
Current portion of long-term debt	1,775	1,775
Accrued expenses and other current liabilities	39,354	22,440
Current liabilities before client funds obligation	82,560	60,895
Client funds obligation	835,918	967,787
Total current liabilities	918,478	1,028,682
Deferred income tax liabilities, net	85,921	70,206
Long-term deferred revenue	62,731	55,671
Net long-term debt, less current portion	31,293	32,614
Other long-term liabilities	18,706	—
Total long-term liabilities	198,651	158,491
Total liabilities	1,117,129	1,187,173
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value (100,000 shares authorized, 61,346 and 60,747 shares issued at September 30, 2019 and December 31, 2018, respectively; 57,657 and 57,277 shares outstanding at September 30, 2019 and December 31, 2018, respectively)	612	607
Additional paid-in capital	250,853	203,680
Retained earnings	530,786	395,590
Treasury stock, at cost (3,688 and 3,470 shares at September 30, 2019 and December 31, 2018, respectively)	(307,353)	(265,124)
Total stockholders' equity	474,898	334,753
Total liabilities and stockholders' equity	\$ 1,592,027	\$ 1,521,926

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues				
Recurring	\$ 171,405	\$ 130,830	\$ 534,267	\$ 409,324
Implementation and other	3,601	2,458	9,995	6,680
Total revenues	<u>175,006</u>	<u>133,288</u>	<u>544,262</u>	<u>416,004</u>
Cost of revenues				
Operating expenses	21,088	18,158	66,153	56,403
Depreciation and amortization	5,304	3,967	14,796	10,258
Total cost of revenues	<u>26,392</u>	<u>22,125</u>	<u>80,949</u>	<u>66,661</u>
Administrative expenses				
Sales and marketing	47,060	37,183	128,280	101,182
Research and development	19,605	11,526	54,869	33,507
General and administrative	25,728	22,048	98,386	73,700
Depreciation and amortization	5,665	4,161	15,848	10,652
Total administrative expenses	<u>98,058</u>	<u>74,918</u>	<u>297,383</u>	<u>219,041</u>
Total operating expenses	<u>124,450</u>	<u>97,043</u>	<u>378,332</u>	<u>285,702</u>
Operating income	50,556	36,245	165,930	130,302
Interest expense	(260)	(384)	(794)	(418)
Other income (expense), net	195	583	(168)	2,128
Income before income taxes	50,491	36,444	164,968	132,012
Provision for income taxes	11,339	7,675	29,772	26,361
Net income	<u>\$ 39,152</u>	<u>\$ 28,769</u>	<u>\$ 135,196</u>	<u>\$ 105,651</u>
Earnings per share, basic	\$ 0.68	\$ 0.50	\$ 2.35	\$ 1.83
Earnings per share, diluted	\$ 0.67	\$ 0.49	\$ 2.31	\$ 1.80
Weighted average shares outstanding:				
Basic	57,654	57,727	57,528	57,785
Diluted	58,383	58,545	58,403	58,724

See accompanying notes to the unaudited consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at December 31, 2018	60,747	\$ 607	\$ 203,680	\$ 395,590	3,470	\$ (265,124)	\$ 334,753
Vesting of restricted stock	280	2	(2)	—	—	—	—
Stock-based compensation	—	—	36,187	—	—	—	36,187
Repurchases of common stock	—	—	—	—	110	(19,669)	(19,669)
Net income	—	—	—	47,282	—	—	47,282
Balances at March 31, 2019	61,027	\$ 609	\$ 239,865	\$ 442,872	3,580	\$ (284,793)	\$ 398,553
Vesting of restricted stock	275	3	(3)	—	—	—	—
Stock-based compensation	—	—	6,207	—	—	—	6,207
Repurchases of common stock	—	—	—	—	92	(18,760)	(18,760)
Net income	—	—	—	48,762	—	—	48,762
Balances at June 30, 2019	61,302	\$ 612	\$ 246,069	\$ 491,634	3,672	\$ (303,553)	\$ 434,762
Vesting of restricted stock	44	—	—	—	—	—	—
Stock-based compensation	—	—	4,784	—	—	—	4,784
Repurchases of common stock	—	—	—	—	16	(3,800)	(3,800)
Net income	—	—	—	39,152	—	—	39,152
Balances at September 30, 2019	61,346	\$ 612	\$ 250,853	\$ 530,786	3,688	\$ (307,353)	\$ 474,898

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balances at December 31, 2017	60,149	\$ 601	\$ 161,809	\$ 258,525	2,361	\$ (139,688)	\$ 281,247
Vesting of restricted stock	298	3	(3)	—	—	—	—
Stock-based compensation	—	—	27,496	—	—	—	27,496
Repurchases of common stock	—	—	—	—	169	(16,870)	(16,870)
Net income	—	—	—	41,160	—	—	41,160
Balances at March 31, 2018	60,447	\$ 604	\$ 189,302	\$ 299,685	2,530	\$ (156,558)	\$ 333,033
Vesting of restricted stock	192	2	(2)	—	—	—	—
Stock-based compensation	—	—	3,988	—	—	—	3,988
Repurchases of common stock	—	—	—	—	408	(43,005)	(43,005)
Net income	—	—	—	35,722	—	—	35,722
Balances at June 30, 2018	60,639	\$ 606	\$ 193,288	\$ 335,407	2,938	\$ (199,563)	\$ 329,738
Vesting of restricted stock	59	—	—	—	—	—	—
Stock-based compensation	—	—	4,967	—	—	—	4,967
Repurchases of common stock	—	—	—	—	30	(3,097)	(3,097)
Net income	—	—	—	28,769	—	—	28,769
Balances at September 30, 2018	60,698	\$ 606	\$ 198,255	\$ 364,176	2,968	\$ (202,660)	\$ 360,377

See accompanying notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018 ⁽¹⁾
Cash flows from operating activities		
Net income	\$ 135,196	\$ 105,651
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,644	20,910
Accretion of discounts on available-for-sale securities	(646)	(860)
Amortization of debt issuance costs	26	24
Stock-based compensation expense	41,122	31,508
Cash paid for derivative settlement	(26)	(168)
(Gain)/loss on derivative	1,789	(1,259)
Deferred income taxes, net	15,715	15,077
Changes in operating assets and liabilities:		
Accounts receivable	805	(637)
Prepaid expenses	(5,066)	(2,952)
Inventory	(181)	(56)
Other assets	(2,367)	(111)
Deferred contract costs	(53,654)	(39,881)
Accounts payable	(970)	1,789
Income taxes, net	(5,550)	591
Accrued commissions and bonuses	(2,239)	(3,131)
Accrued payroll and vacation	6,931	5,922
Deferred revenue	8,714	9,190
Accrued expenses and other current liabilities	6,176	4,242
Net cash provided by operating activities	<u>176,419</u>	<u>145,849</u>
Cash flows from investing activities		
Purchase of short-term investments from funds held for clients	(61,268)	(137,614)
Proceeds from maturities of short-term investments from funds held for clients	54,200	95,500
Purchases of property and equipment	(71,080)	(44,264)
Net cash used in investing activities	<u>(78,148)</u>	<u>(86,378)</u>
Cash flows from financing activities		
Repurchases of common stock	—	(42,857)
Withholding taxes paid related to net share settlement	(42,229)	(20,115)
Payments on long-term debt	(1,331)	(444)
Net change in client funds obligation	(131,869)	(186,454)
Payment of debt issuance costs	(16)	(58)
Net cash used in financing activities	<u>(175,445)</u>	<u>(249,928)</u>
Decrease in cash, cash equivalents, restricted cash and restricted cash equivalents	(77,174)	(190,457)
Cash, cash equivalents, restricted cash and restricted cash equivalents		
Cash, cash equivalents, restricted cash and restricted cash equivalents, beginning of period	986,464	1,098,860
Cash, cash equivalents, restricted cash and restricted cash equivalents, end of period	<u>\$ 909,290</u>	<u>\$ 908,403</u>
Reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents		
Cash and cash equivalents	108,127	85,048
Restricted cash included in funds held for clients	801,163	823,355
Total cash, cash equivalents, restricted cash and restricted cash equivalents, end of period	<u>\$ 909,290</u>	<u>\$ 908,403</u>

(1) Amounts have been adjusted to reflect the adoption of Accounting Standards Update No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)." See Note 2 for a summary of reclassifications and adjustments.

See accompanying notes to the unaudited consolidated financial statements.

Paycom Software, Inc.
Notes to the Consolidated Financial Statements
(tabular dollars and shares in thousands, except per share amounts)
(unaudited)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are discussed in “Note 2. Summary of Significant Accounting Policies” in the notes to our audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2018 (the “Form 10-K”).

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial statements that permit reduced disclosure for interim periods. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments necessary for the fair presentation of our consolidated balance sheets as of September 30, 2019 and our consolidated statements of income, stockholders’ equity and cash flows for the three and nine months ended September 30, 2019 and 2018. Such adjustments are of a normal recurring nature. The information in this Quarterly Report on Form 10-Q (this “Form 10-Q”) should be read in conjunction with the Form 10-K. The results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results expected for the full year.

Reclassifications

Certain prior period amounts have been reclassified in connection with the adoption of Accounting Standards Update (“ASU”) No. 2016-18, “Restricted Cash” (“ASU 2016-18”) as discussed below. In addition to these adjustments, in the consolidated balance sheets, we combined the line items “Intangible assets, net” and “Other assets” in the prior period in order to conform to the current period presentation.

Recently Adopted Accounting Pronouncements

In January 2019, we adopted ASU No. 2016-02, “Leases (Topic 842)” using the modified retrospective approach. Under this adoption method, we have not restated comparative prior periods and have carried forward the assessment of whether our contracts are or contain leases, the classification of our leases and the remaining lease terms. See Note 6 for a discussion of our adoption of this standard.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, to eliminate or modify certain disclosure rules that are redundant, outdated, or duplicative of U.S. GAAP or other regulatory requirements. In addition, the amendments provide that disclosure requirements related to the analysis of stockholders’ equity are expanded for interim financial statements. An analysis of the changes in each caption of stockholders’ equity presented in the balance sheet is provided in the consolidated statement of stockholders’ equity.

During the three months ended June 30, 2019, we adopted ASU 2016-18, which was effective on January 1, 2018. This guidance requires that the consolidated statements of cash flows explain the change during the reporting period of the totals of cash, cash equivalents, restricted cash and restricted cash equivalents. Therefore, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. Accordingly, we applied the guidance using the retrospective transition method to each period presented, which adjusted the consolidated statements of cash flows to include restricted cash held to satisfy client funds obligations, as a component of cash, cash equivalents, restricted cash and restricted cash equivalents.

Paycom Software, Inc.
Notes to the Consolidated Financial Statements
(tabular dollars and shares in thousands, except per share amounts)
(unaudited)

Impact on Previously Reported Results

As noted above, we adopted ASU 2016-18 during the three months ending June 30, 2019. We assessed the materiality of this presentation on prior periods' consolidated financial statements in accordance with the SEC Staff Accounting Bulletin No. 99, "Materiality", codified in Accounting Standards Codification ("ASC") Topic 250, "Accounting Changes and Error Corrections." Based on this assessment, we concluded that the correction is not material to any previously issued interim financial statements. The correction had no impact on our consolidated statements of income or consolidated balance sheets in previously issued consolidated financial statements. We will conform presentation of previously reported consolidated statements of cash flow information in future filings.

The following tables present the unaudited consolidated statements of cash flows line items after giving effect to the adoption of ASU 2016-18:

	Nine Months Ended September 30, 2018		
	As previously reported	ASU 2016-18 adjustments	As adjusted
Cash flows from operating activities			
Net cash provided by operating activities	\$ 145,849	\$ —	\$ 145,849
Cash flows from investing activities			
Purchase of short-term investments from funds held for clients	(137,561)	(53)	(137,614)
Proceeds from maturities of short-term investments from funds held for clients	95,500	—	95,500
Net change in funds held for clients	229,375	(229,375)	—
Purchases of property and equipment	(44,264)	—	(44,264)
Net cash provided by (used in) investing activities	143,050	(229,428)	(86,378)
Cash flows from financing activities			
Net cash used in financing activities	(249,928)	—	(249,928)
Total increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	38,971	(229,428)	(190,457)
Cash, cash equivalents, restricted cash and restricted cash equivalents			
Beginning of period	46,077	1,052,783	1,098,860
End of period	<u>\$ 85,048</u>	<u>\$ 823,355</u>	<u>\$ 908,403</u>

Use of Estimates

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

Seasonality

Our revenues are seasonal in nature. Recurring revenues include revenues relating to the annual processing of payroll forms, such as Form W-2, Form 1099, and Form 1095 and revenues from processing unscheduled payroll runs (such as bonuses) for our clients. As payroll forms are typically processed in the first quarter of the year, first quarter revenues and margins are generally higher than in subsequent quarters. These seasonal fluctuations in revenues can also have an impact on gross profits. Historical results impacted by these seasonal trends should not be considered a reliable indicator of our future results of operations.

Employee Stock Purchase Plan

An award issued under the Paycom Software, Inc. Employee Stock Purchase Plan (the "ESPP") is classified as a share-based liability and recognized at the fair value of the award. Expense is recognized, net of estimated forfeitures, on a straight-line basis over the requisite service period.

Paycom Software, Inc.
Notes to the Consolidated Financial Statements
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(unaudited)

Funds Held for Clients and Client Funds Obligation

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

These investments are shown in our consolidated balance sheets as funds held for clients, and the offsetting liability for the tax filings is shown as client funds obligation. The liability is recognized in the accompanying consolidated balance sheets at the time we obtain the funds from clients. The client funds obligation represents liabilities that will be repaid within one year of the consolidated balance sheet date. As of September 30, 2019 and December 31, 2018, the funds held for clients were invested in money market funds, demand deposit accounts, commercial paper with a maturity duration less than three months and certificates of deposit. Short-term investments in commercial paper and certificates of deposit with an original maturity duration greater than three months are classified as available-for-sale securities, and are also included within the funds held for clients line item in the consolidated balance sheets. These available-for-sale securities are recognized in the consolidated balance sheets at fair value, which approximates the amortized cost of the securities. Funds held for clients are classified as a current asset in the consolidated balance sheets because the funds are held solely to satisfy the client funds obligation.

Stock Repurchase Plan

In May 2016, our Board of Directors authorized a stock repurchase plan allowing for the repurchase of shares of our common stock in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b5-1 programs. Since the initial authorization of the stock repurchase plan, our Board of Directors has amended and extended and authorized new stock repurchase plans from time to time. Most recently, in November 2018, our Board of Directors authorized the repurchase of up to \$150.0 million of our common stock. As of September 30, 2019, there was \$119.7 million available for repurchases under our stock repurchase plan. Our stock repurchase plan may be suspended or discontinued at any time. The actual timing, number and value of shares repurchased depends on a number of factors, including the market price of our common stock, general market and economic conditions, shares withheld for taxes associated with the vesting of restricted stock and other corporate considerations. The current stock repurchase plan will expire on November 19, 2020.

During the nine months ended September 30, 2019, we repurchased an aggregate of 218,446 shares of our common stock at an average cost of \$193.32 per share to satisfy tax withholding obligations for certain employees upon the vesting of restricted stock.

Recently Issued Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)” (“ASU 2018-15”). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance will not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). ASU 2018-13 modifies the disclosure requirements in Topic 820, “Fair Value Measurement,” based on the FASB Concepts Statement, “Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements,” including consideration of costs and benefits. This guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance will not have a material impact on the consolidated financial statements.

3. REVENUE

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

Paycom Software, Inc.
Notes to the Consolidated Financial Statements
(tabular dollars and shares in thousands, except per share amounts)
(unaudited)

Recurring Revenues

Recurring revenues are derived primarily from our talent acquisition, time and labor management, payroll, talent management and HR management applications as well as fees charged for form filings and delivery of client payroll checks and reports. Talent acquisition includes our applicant tracking, candidate tracker, background check, on-boarding, e-verify and tax credit services applications. Time and labor management includes time and attendance, scheduling/schedule exchange, time-off requests, labor allocation, labor management reports/push reporting and geofencing/geotracking. Payroll includes our payroll and tax management, Paycom Pay, expense management, garnishment management and GL Concierge applications. Talent management includes our employee self-service, compensation budgeting, performance management, executive dashboard and Paycom learning and course content applications. HR management includes our document and task management, government and compliance, benefits administration, COBRA administration, personnel action forms, surveys and enhanced Affordable Care Act applications.

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

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

Implementation and Other Revenues

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

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

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

Contract Balances

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

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Changes in deferred revenue related to material right performance obligations as of September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Balance, beginning of period	\$ 70,004	\$ 57,189	\$ 64,651	\$ 51,624
Deferral of revenue	6,631	5,643	17,651	14,902
Recognition of unearned revenue	(3,270)	(2,018)	(8,937)	(5,712)
Balance, end of period	\$ 73,365	\$ 60,814	\$ 73,365	\$ 60,814

We expect to recognize \$2.8 million of deferred revenue related to material right performance obligations in the remainder of 2019, \$10.5 million of such deferred revenue in 2020, and \$60.1 million of such deferred revenue thereafter.

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

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

The assets related to both costs to obtain, and costs to fulfill, contracts with clients are accounted for utilizing a portfolio approach, and are capitalized and amortized over the expected period of benefit, which we have determined to be the estimated client relationship of ten years. The expected period of benefit has been determined to be the estimated life of the client relationship primarily because we incur no new costs to obtain, or costs to fulfill, a contract upon renewal of such contract. Additional commission costs may be incurred when an existing client purchases additional applications; however, these commission costs relate solely to the additional applications purchased and are not related to contract renewal. Furthermore, additional fulfillment costs associated with existing clients purchasing additional applications are minimized by our seamless single-database platform. These assets are presented as deferred contract costs in the accompanying consolidated balance sheets. Amortization expense related to costs to obtain and costs to fulfill a contract are included in the “sales and marketing” and “general and administrative” line items in the accompanying consolidated statements of income.

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

	As of and for the Three Months Ended September 30, 2019			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	\$ 178,445	\$ 11,315	\$ (6,321)	\$ 183,439
Costs to fulfill a contract	\$ 121,664	\$ 15,323	\$ (4,258)	\$ 132,729
	As of and for the Three Months Ended September 30, 2018			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	\$ 140,119	\$ 10,595	\$ (4,855)	\$ 145,859
Costs to fulfill a contract	\$ 87,199	\$ 9,730	\$ (3,001)	\$ 93,928
	As of and for the Nine Months Ended September 30, 2019			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	\$ 158,989	\$ 42,513	\$ (18,063)	\$ 183,439
Costs to fulfill a contract	\$ 101,756	\$ 42,614	\$ (11,641)	\$ 132,729
	As of and for the Nine Months Ended September 30, 2018			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	\$ 126,207	\$ 33,565	\$ (13,913)	\$ 145,859
Costs to fulfill a contract	\$ 72,061	\$ 30,156	\$ (8,289)	\$ 93,928

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4. PROPERTY AND EQUIPMENT

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Property and equipment		
Buildings	\$ 101,681	\$ 101,421
Software and capitalized software costs	90,606	66,634
Computer equipment	54,208	39,492
Rental clocks	19,829	16,950
Furniture, fixtures and equipment	17,848	16,474
Other	6,126	1,348
	<u>290,298</u>	<u>242,319</u>
Less: accumulated depreciation and amortization	<u>(113,437)</u>	<u>(82,969)</u>
	176,861	159,350
Construction in progress	18,140	8,589
Land	29,034	9,023
Property and equipment, net	<u>\$ 224,035</u>	<u>\$ 176,962</u>

We capitalize computer software development costs related to software developed for internal use in accordance with ASC 350-40. For the three and nine months ended September 30, 2019, we capitalized \$7.1 million and \$22.7 million, respectively, of computer software development costs related to software developed for internal use. For the three and nine months ended September 30, 2018, we capitalized \$5.2 million and \$16.4 million, respectively, of computer software development costs related to software developed for internal use.

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

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Included in the construction in progress balance at September 30, 2019 and December 31, 2018 is \$1.0 million and \$0.1 million in retainage, respectively.

We capitalize interest incurred for indebtedness related to construction in progress. For the three and nine months ended September 30, 2019, we incurred interest costs of \$0.3 million and \$1.1 million, respectively, of which we capitalized \$0.2 million and \$0.4 million, respectively. For the three and nine months ended September 30, 2018, we incurred interest costs of \$0.4 million and \$1.2 million, respectively, of which we capitalized less than \$0.1 million and \$0.8 million, respectively.

Depreciation and amortization expense for property and equipment was \$10.9 million and \$30.5 million, respectively, for the three and nine months ended September 30, 2019. Depreciation and amortization expense for property and equipment was \$8.1 million and \$20.8 million, respectively, for the three and nine months ended September 30, 2018.

5. GOODWILL AND INTANGIBLE ASSETS, NET

As of both September 30, 2019 and December 31, 2018, goodwill was \$51.9 million. We have selected June 30 as our annual goodwill impairment testing date. We have elected to perform a qualitative analysis of the fair value of our goodwill and determined there was no impairment as of June 30, 2019. As of September 30, 2019 and December 31, 2018, there were no indicators of impairment.

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

September 30, 2019				
	Weighted Average Remaining Useful Life (Years)	Gross	Accumulated Amortization	Net
Intangibles:				
Trade name	2.8	\$ 3,194	\$ (2,608)	\$ 586
Total		<u>\$ 3,194</u>	<u>\$ (2,608)</u>	<u>\$ 586</u>
December 31, 2018				
	Weighted Average Remaining Useful Life (Years)	Gross	Accumulated Amortization	Net
Intangibles:				
Trade name	3.5	\$ 3,194	\$ (2,449)	\$ 745
Total		<u>\$ 3,194</u>	<u>\$ (2,449)</u>	<u>\$ 745</u>

The weighted average remaining useful life of our intangible assets was 2.8 years as of September 30, 2019. Amortization of intangible assets for the three and nine months ended September 30, 2019 was \$0.1 million and \$0.2 million, respectively. Amortization of intangible assets for the three and nine months ended September 30, 2018 was \$0.1 million and \$0.2 million, respectively.

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6. LEASES

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” The purpose of this new guidance is to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities in the consolidated balance sheets as well as providing additional disclosure requirements related to leasing arrangements. The new guidance was effective for us beginning January 1, 2019, which we adopted using a modified retrospective method and the transition relief guidance provided by the FASB in ASU 2018-11. Under this adoption method, we have not restated comparative prior periods and have carried forward the assessment of whether our contracts are or contain leases, the classification of our leases and the remaining lease terms. Based on our portfolio of leases at January 1, 2019, \$21.6 million of lease assets and liabilities were recognized in our consolidated balance sheets, which related to operating leases for real estate. Under the transition relief guidance, we have elected the lease vs. non-lease components practical expedient relating to the asset class of real estate, the short-term lease exemption practical expedient and the package of practical expedients. In connection with the adoption of this standard, we updated our control framework and implemented changes to our existing controls to account for leases.

The Company’s leases primarily consist of noncancellable operating leases for office space with contractual terms expiring from 2019 to 2025. All of our leases are operating leases and, as a lessee, we have not entered into any sublease agreements. The lease term is defined as the fixed noncancellable term of the lease plus all periods, if any, for which failure to renew the lease imposes a penalty on us in an amount that appears, at the inception of the lease, to be reasonably assured. While some of our leases include an option to extend the lease up to five years, it is not reasonably certain that any such options will be exercised due, in part, to the dynamic nature of our sales force and rate of growth. Some of our leases contain termination options that are not reasonably certain to be exercised. However, if a termination option is exercised, we remeasure the lease asset in the consolidated balance sheets using the updated lease period. None of our leases contain residual value guarantees, substantial restrictions or covenants.

Lease assets of \$25.3 million as of September 30, 2019 were included in Other assets in our consolidated balance sheets, which included a \$1.5 million reduction to Other Assets for deferred rent. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related lease expense on a straight-line basis and record the difference between the lease expense and the amount payable under the lease as an adjustment to the right-of-use asset. Short-term lease liabilities of \$9.6 million as of September 30, 2019 were included in Accrued expenses and other current liabilities in our consolidated balance sheets. In addition, long-term lease liabilities of \$17.2 million as of September 30, 2019 were recognized in Other long-term liabilities in our consolidated balance sheets.

Rent expense associated with operating leases for the three and nine months ended September 30, 2019 was \$2.6 million and \$7.4 million, respectively. Rent expense associated with operating leases for the three and nine months ended September 30, 2018 was \$1.9 million and \$5.5 million, respectively. Cash paid for amounts included in the measurement of our operating lease liabilities was \$2.7 million and \$7.4 million for the three and nine months ended September 30, 2019, respectively.

Because no implicit discount rates for our leases could be readily determined, the Company elected to use an estimated incremental borrowing rate to determine the present value of our leases. The weighted average discount rate related to our portfolio of leases at September 30, 2019 was 4.1%. The average remaining lease term for our leases was 2.8 years as of September 30, 2019.

The undiscounted cash flows for the future annual maturities of our operating lease liabilities and the reconciliation of those total undiscounted cash flows to our lease liabilities as of September 30, 2019 were as follows:

2019	\$	2,526
2020		9,570
2021		6,397
2022		5,314
2023		3,666
Thereafter		1,382
Total undiscounted cash flows	\$	28,855
Present value discount		(2,027)
Lease liabilities	\$	26,828

The table above does not include any legally binding minimum lease payments for leases signed but not yet commenced. As of September 30, 2019, the present value of the operating lease liabilities that had not yet commenced was \$5.0 million.

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7. LONG-TERM DEBT, NET

Long-term debt consisted of the following:

	September 30, 2019	December 31, 2018
Net term note to bank due September 7, 2025	\$ 33,068	\$ 34,389
Total long-term debt, net (including current portion)	33,068	34,389
Less: Current portion	(1,775)	(1,775)
Total long-term debt, net	<u>\$ 31,293</u>	<u>\$ 32,614</u>

On December 7, 2017, we entered into a senior secured term credit agreement (as amended from time to time, the “Term Credit Agreement”), pursuant to which JPMorgan Chase Bank, N.A., Bank of America, N.A. and Kirkpatrick Bank made certain term loans to us (the “Term Loans”). Our obligations under the Term Loans are secured by a mortgage and first priority security interest in our headquarters property. The Term Loans mature on September 7, 2025 and bear interest, at our option, at either (a) a prime rate plus 1.0% or (b) an adjusted LIBOR rate for the interest period in effect for such Term Loan plus 1.5%. As of September 30, 2019, our indebtedness of \$31.3 million consisted solely of Term Loans made under the Term Credit Agreement. Unamortized debt issuance costs of \$0.2 million as of both September 30, 2019 and December 31, 2018 are presented as a direct deduction from the carrying amount of the debt liability.

Under the Term Credit Agreement, we are subject to two material financial covenants, which require us to maintain a fixed charge coverage ratio of not less than 1.25 to 1.0 and a funded indebtedness to EBITDA ratio of not greater than 2.0 to 1.0. As of September 30, 2019, we were in compliance with these covenants.

On February 12, 2018, we entered into a senior secured revolving credit agreement (the “Revolving Credit Agreement”) with JPMorgan Chase Bank, N.A. and Bank of America, N.A. that provided for a senior secured revolving credit facility (the “Facility”) in the aggregate principal amount of \$50.0 million (the “Revolving Commitment”), which could be increased to up to \$100.0 million, subject to obtaining additional lender commitments and certain approvals and satisfying certain other conditions. The Facility includes a \$5.0 million sublimit for swingline loans and a \$2.5 million sublimit for letters of credit. The Facility was scheduled to mature on February 12, 2020. On April 15, 2019, we entered into the First Amendment to Revolving Credit Agreement (the “First Amendment”). Pursuant to the First Amendment, Wells Fargo Bank, N.A., was added as a lender and the Revolving Commitment was increased to \$75.0 million, which may be further increased to \$125.0 million subject to obtaining additional lender commitments and certain approvals and satisfying other conditions. The scheduled maturity date of the Facility was extended to April 15, 2022.

Borrowings under the Facility will generally bear interest at a prime rate plus 1.0% or, at our option, an adjusted LIBOR rate for the interest period in effect for such borrowing plus 1.5%. The proceeds of the loans and letters of credit under the Facility are to be used only for our general business purposes and working capital. Letters of credit are to be issued only to support our business operations. As of September 30, 2019, we did not have any borrowings outstanding under the Facility.

Under the Revolving Credit Agreement, we are required to maintain a fixed charge coverage ratio of not less than 1.25 to 1.0 and a funded indebtedness to EBITDA ratio of not greater than 2.0 to 1.0. Additionally, the Revolving Credit Agreement contains customary affirmative and negative covenants, including covenants limiting our ability to, among other things, grant liens, incur debt, effect certain mergers, make certain investments, dispose of assets, enter into certain transactions, including swap agreements and sale and leaseback transactions, pay dividends or distributions on our capital stock, and enter into transactions with affiliates, in each case subject to customary exceptions for a facility of the size and type of the Facility. As of September 30, 2019, we were in compliance with all covenants related to the Revolving Credit Agreement.

As of September 30, 2019 and December 31, 2018, the carrying value of our total long-term debt approximated its fair value as of such date. The fair value of our long-term debt is estimated based on the borrowing rates currently available to us for bank loans with similar terms and maturities.

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8. DERIVATIVE INSTRUMENTS

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

The objective of the interest rate swap is to reduce the variability in the forecasted interest payments of the Term Loans, which is based on a one-month LIBOR rate versus a fixed interest rate of 2.54% on a notional value of \$35.5 million. Under the terms of the interest rate swap agreement, we will receive quarterly variable interest payments based on the LIBOR rate and will pay interest at a fixed rate. The interest rate swap agreement has a maturity date of September 7, 2025. For the three and nine months ended September 30, 2019, we recorded a loss of \$0.4 million and \$1.8 million, respectively, for the change in fair value of the interest rate swap. For the three and nine months ended September 30, 2018, we recognized a gain of \$0.3 million and \$1.4 million, respectively, for the change in fair value of the interest rate swap.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, funds held for clients, client funds obligation and long-term debt. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, funds held for clients and client funds obligation approximates fair value due to the short-term nature of the instruments. See Note 7 for discussion of the fair value of our debt.

As discussed in Note 2, we invest the funds held for clients in money market funds, demand deposit accounts, commercial paper with a maturity duration less than three months and certificates of deposit, and classify as cash and cash equivalents within the funds held for clients line item in the consolidated balance sheets. Short-term investments in commercial paper and certificates of deposit with an original maturity duration greater than three months are classified as available-for-sale securities, and are also included within the funds held for clients line item. These available-for-sale securities are recognized in the consolidated balance sheets at fair value, which approximates the amortized cost of the securities. As of September 30, 2019 and December 31, 2018, all available-for-sale securities and certificates of deposit were due in one year or less.

As discussed in Note 8, during the year ended December 31, 2017, we entered into an interest rate swap. The interest rate swap is measured on a recurring basis based on quoted prices for similar financial instruments and other observable inputs recognized at fair value.

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

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

Included in the following tables are the Company's major categories of assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018:

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Commercial paper	\$ —	\$ 34,755	\$ —	\$ 34,755
Liabilities:				
Interest rate swap	\$ —	\$ 1,746	\$ —	\$ 1,746

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	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Commercial paper	\$ —	\$ 21,041	\$ —	\$ 21,041
Certificates of deposit	\$ —	\$ 6,000	\$ —	\$ 6,000
Interest rate swap	\$ —	\$ 17	\$ —	\$ 17

10. EMPLOYEE SAVINGS PLAN AND EMPLOYEE STOCK PURCHASE PLAN

Employees over the age of 18 who have completed ninety days of service are eligible to participate in our 401(k) plan. We have made a Qualified Automatic Contribution Arrangement (“QACA”) election, whereby the Company matches the contribution of our employees equal to 100% of the first 1% of salary deferrals and 50% of salary deferrals between 2% and 6%, up to a maximum matching contribution of 3.5% of an employee’s salary each plan year. We are allowed to make additional discretionary matching contributions and discretionary profit sharing contributions. Employees are 100% vested in amounts attributable to salary deferrals and rollover contributions. The QACA matching contributions as well as the discretionary matching and profit sharing contributions vest 100% after two years of employment from the date of hire. Matching contributions were \$1.5 million and \$4.8 million for the three and nine months ended September 30, 2019, respectively. Matching contributions were \$1.2 million and \$3.9 million for the three and nine months ended September 30, 2018, respectively.

The ESPP has overlapping offering periods, with each offering period lasting approximately 24 months. At the beginning of each offering period, eligible employees may elect to contribute, through payroll deductions, up to 10% of their compensation, subject to an annual per-employee maximum of \$25,000. Eligible employees purchase shares of the Company’s common stock at a price equal to 85% of the fair market value of the shares on the exercise date. The maximum number of shares that may be purchased by a participant during each offering period is 2,000 shares, subject to limits specified by the Internal Revenue Service. The shares reserved for purposes of the ESPP are shares we purchase in the open market. The maximum aggregate number of shares of the Company’s common stock that may be purchased by all participants under the ESPP is 2.0 million shares. Eligible employees purchased 39,137 and 46,508 shares of the Company’s common stock under the ESPP during the nine months ended September 30, 2019 and 2018, respectively. Compensation expense related to the ESPP is recognized on a straight-line basis over the requisite service period. Our compensation expense related to the ESPP was \$0.4 million and \$1.3 million for the three and nine months ended September 30, 2019, respectively. Our compensation expense related to the ESPP was \$0.4 million and \$0.9 million for the three and nine months ended September 30, 2018, respectively.

11. EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share is computed in a similar manner to basic earnings per share after assuming the issuance of shares of common stock for all potentially dilutive shares of restricted stock whether or not they are vested.

In accordance with ASC Topic 260, “Earnings Per Share,” the two-class method determines earnings for each class of common stock and participating securities according to an earnings allocation formula that adjusts the income available to common stockholders for dividends or dividend equivalents and participation rights in undistributed earnings. Certain unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. The unvested shares of restricted stock granted in 2015 are considered participating securities, while all other unvested shares of restricted stock are not considered participating securities.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Numerator:				
Net income	\$ 39,152	\$ 28,769	\$ 135,196	\$ 105,651
Less: income allocable to participating securities	(18)	(36)	(62)	(134)
Income allocable to common shares	<u>\$ 39,134</u>	<u>\$ 28,733</u>	<u>\$ 135,134</u>	<u>\$ 105,517</u>
Add back: undistributed earnings allocable to participating securities	\$ 18	\$ 36	\$ 62	\$ 134
Less: undistributed earnings reallocated to participating securities	(18)	(36)	(61)	(132)
Numerator for diluted earnings per share	<u>\$ 39,134</u>	<u>\$ 28,733</u>	<u>\$ 135,135</u>	<u>\$ 105,519</u>
Denominator:				
Basic weighted average shares outstanding	57,654	57,727	57,528	57,785
Dilutive effect of unvested restricted stock	729	818	875	939
Diluted weighted average shares outstanding	<u>58,383</u>	<u>58,545</u>	<u>58,403</u>	<u>58,724</u>
Earnings per share:				
Basic	\$ 0.68	\$ 0.50	\$ 2.35	\$ 1.83
Diluted	\$ 0.67	\$ 0.49	\$ 2.31	\$ 1.80

12. STOCK-BASED COMPENSATION

The following table summarizes restricted stock awards activity for the nine months ended September 30, 2019:

	<u>Time-Based</u>		<u>Market-Based</u>	
	<u>Restricted Stock Awards</u>		<u>Restricted Stock Awards</u>	
	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested shares of restricted stock outstanding at December 31, 2018	806.5	\$ 67.54	—	\$ —
Granted	338.9	151.10	281.0	102.76
Vested	(318.5)	64.06	(280.4)	102.76
Forfeited	(77.8)	85.82	(0.6)	102.57
Unvested shares of restricted stock outstanding at September 30, 2019	<u>749.1</u>	<u>\$ 104.92</u>	<u>—</u>	<u>\$ —</u>

In January 2019, we issued an aggregate of 520,069 restricted shares of common stock to our executive officers, certain non-executive, non-sales employees and non-executive sales management employees under the Paycom Software, Inc. 2014 Long-Term Incentive Plan (the "LTIP"), consisting of 280,960 shares subject to market-based vesting conditions ("Market-Based Shares") and 239,109 shares subject to time-based vesting conditions ("Time-Based Shares"). Market-Based Shares vested 50% on the first date that the Company's total enterprise value ("TEV") (calculated as defined in the applicable restricted stock award agreement) equaled or exceeded \$8.65 billion and 50% on the first date that the Company's TEV equaled or exceeded \$9.35 billion, in each case provided that (i) such date occurred on or before the sixth anniversary of the grant date and (ii) the recipient was employed by, or providing services to, the Company on the applicable vesting date. As shown in the table below, all Market-Based Shares issued in January 2019 have vested.

On April 23, 2019, we issued an aggregate of 65,255 restricted shares of common stock to certain non-executive employees under the LTIP consisting of Time-Based Shares that will vest in either three or four equal tranches annually, generally beginning on the first anniversary of the grant date, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date.

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On April 29, 2019, we issued an aggregate of 6,816 restricted shares of common stock under the LTIP to the non-employee members of our Board of Directors. Such shares of restricted stock will cliff-vest on the seventh day following the first anniversary of the date of grant, provided that such director is providing services to the Company through the applicable vesting date.

In May 2019, we issued an aggregate of 26,000 restricted shares of common stock to certain non-executive employees under the LTIP consisting of Time-Based Shares that will vest over periods ranging from two to four years, provided that the recipient is employed by, or providing services to, the Company on the applicable vesting date.

The following table summarizes vesting activity for Market-Based Shares during the nine months ended September 30, 2019, the associated compensation cost recognized in connection with each vesting event and the number of shares withheld to satisfy tax withholding obligations:

Vesting Condition	Date Vested	Number of Shares Vested	Compensation Cost Recognized Upon Vesting	Shares Withheld for Taxes ¹
Market-based (TEV = \$8.65 billion)	February 13, 2019	140.2	\$14,900	54.5
Market-based (TEV = \$9.35 billion)	February 22, 2019	140.2	\$13,900	55.5

¹ All shares withheld to satisfy tax withholding obligations are held as treasury stock.

Time-Based Shares granted to certain non-executive employees in January 2019 will vest 25% on a specified initial vesting date and 25% on each of the first three anniversaries of such initial vesting date, provided that the recipient is employed by, or providing services to, the Company or a subsidiary on the applicable vesting date. Time-Based Shares granted to executive officers, sales management employees and certain non-executive employees will generally vest over periods ranging from two to four years beginning on a specified initial vesting date and thereafter on the anniversaries of such date, provided that the executive officer or employee is employed by, or providing services to, the Company on the applicable vesting date.

For the three and nine months ended September 30, 2019, our total compensation expense related to restricted stock was \$4.5 million and \$41.1 million, respectively. For the three and nine months ended September 30, 2018, our total compensation expense related to restricted stock was \$4.5 million and \$31.5 million, respectively. There was \$62.6 million of unrecognized compensation cost, net of estimated forfeitures, related to unvested shares of restricted stock outstanding as of September 30, 2019. The unrecognized compensation cost for the unvested shares is expected to be recognized over a weighted average period of 2.4 years as of September 30, 2019.

We capitalized stock-based compensation costs related to software developed for internal use of \$0.3 million and \$4.3 million for the three and nine months ended September 30, 2019, respectively. We capitalized stock-based compensation costs related to software developed for internal use of \$0.4 million and \$3.3 million for the three and nine months ended September 30, 2018, respectively.

13. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

14. INCOME TAXES

The Company's effective income tax rate was 18.0% and 20.0% for the nine months ended September 30, 2019 and 2018, respectively. The lower effective tax rate for the nine months ended September 30, 2019 is primarily related to an increase in excess tax benefits from stock-based compensation related to vesting events.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. The following discussion and analysis should be read in conjunction with (i) the accompanying unaudited consolidated financial statements and notes thereto for the three and nine months ended September 30, 2019, (ii) the audited consolidated financial statements and notes thereto for the year ended December 31, 2018 included in our Annual Report on Form 10-K (the "Form 10-K") filed with the Securities and Exchange Commission (the "SEC") on February 14, 2019 and (iii) the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K. Except for certain information as of December 31, 2018, all amounts herein are unaudited. Unless we state otherwise or the context otherwise requires, the terms "we," "us," "our" and the "Company" refer to Paycom Software, Inc. and its consolidated subsidiaries. All amounts presented in tables, other than per share amounts, are in thousands unless otherwise noted.

Effective January 1, 2019, we adopted the requirements of Accounting Standards Update ("ASU") No. 2016-02 "Leases (Topic 842)" ("ASU 2016-02") as discussed in Note 6 to the consolidated financial statements. Effective April 1, 2019, we adopted the requirements of ASU No. 2016-18, "Restricted Cash" ("ASU 2016-18") as discussed in Note 2 to the consolidated financial statements. All applicable amounts and disclosures set forth in this Quarterly Report on Form 10-Q (this "Form 10-Q") have been updated to comply with the new standards.

Forward-Looking Statements

The following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are any statements that look to future events and include, but are not limited to, statements regarding our business strategy; anticipated future operating results and operating expenses, cash flows, capital resources, dividends and liquidity; trends, opportunities and risks affecting our business, industry and financial results; future expansion or growth plans and potential for future growth; our ability to attract new clients to purchase our solution; our ability to retain clients and induce them to purchase additional applications; our ability to accurately forecast future revenues and appropriately plan our expenses; market acceptance of our solution and applications; our expectations regarding future revenues generated by certain applications; our ability to attract and retain qualified employees and key personnel; future regulatory, judicial and legislative changes; how certain factors affecting our performance correlate to improvement or deterioration in the labor market; our plan to open additional sales offices and our ability to effectively execute such plan; the sufficiency of our existing cash and cash equivalents to meet our working capital and capital expenditure needs over the next 12 months; the timeline for construction of our new Texas operations facility; our plans regarding our capital expenditures and investment activity as our business grows, including with respect to our new Texas operations facility and research and development; our plans to repurchase shares of our common stock through a stock repurchase plan; and our expected income tax rate for future periods. In addition, forward-looking statements also consist of statements involving trend analyses and statements including such words as "anticipate," "believe," "could," "expect," "will," "intend," "may," "might," "plan," "potential," "should," "would," and similar expressions or the negative of such terms or other comparable terminology. These forward-looking statements speak only as of the date of this Form 10-Q and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth in Part I, Item 1A, "Risk Factors" of the Form 10-K, Part II, Item 1A, "Risk Factors" of this Form 10-Q and in our other reports filed with the SEC. We do not undertake any obligation to update or revise the forward-looking statements to reflect events that occur or circumstances that exist after the date on which such statements were made, except to the extent required by law.

Overview

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

We generate revenues from (i) fixed amounts charged per billing period plus a fee per employee or transaction processed and (ii) fixed amounts charged per billing period. We do not require clients to enter into long-term contractual commitments with us. Our billing period varies by client based on when each client pays its employees, which is either weekly, bi-weekly, semi-monthly or monthly. We serve a diverse client base in terms of size and industry. None of our clients constituted more than one-half of one percent of our revenues for the nine months ended September 30, 2019. Our revenues are primarily generated through our sales force that solicits new clients and our client relations representatives who sell new applications to existing clients.

Our continued growth depends on the introduction of new applications to our existing client base while targeting a high degree of client employee usage across those applications, attracting new clients through further penetration of our existing markets and geographic expansion into new markets. On July 30, 2019, we announced the opening of our new sales office in New Orleans, Louisiana. We plan to open additional sales offices in the future to further expand our presence in the U.S. market. Our principal marketing efforts include email campaigns, social and digital media, search engine marketing methods, tradeshows and outbound marketing including television and print advertising. In addition, we generate leads and build recognition of our brand and thought leadership with relevant and informative content, such as white papers, blogs, podcast episodes and webinars.

Growth Outlook, Opportunities and Challenges

As a result of our significant revenue growth and geographic expansion since our initial public offering in April 2014, we are presented with a variety of opportunities and challenges. Our payroll application is the foundation of our solution and all of our clients are required to utilize this application in order to access our other applications. Consequently, we have historically generated the majority of our revenues from our payroll applications, although our revenue mix has evolved and will continue to evolve as we develop and add new non-payroll applications to our solution. We believe our strategy of focusing on increased employee usage is key to long-term client satisfaction and client retention. Client adoption of new applications and client employee usage of both new and existing applications have been significant factors in our revenue growth, and we expect the continuation of this trajectory will depend, in part, on the introduction of applications to our existing client base that encourage and promote more employee usage. Moreover, in order to increase revenues and continue to improve our operating results, we must also attract new clients.

Our target client size range is 50 to 5,000 employees. While we continue to serve a diversified client base ranging in size from one employee to many thousands of employees, the average size of our clients has grown significantly as we have organically grown our operations, increased the number of applications we offer and gained traction with larger companies. We believe larger employers represent a substantial opportunity to increase the number of potential clients and to increase our revenues per client, with limited incremental cost to us. Because we charge our clients on a per-employee basis for certain services we provide, any increase or decrease in the number of employees of our clients will have a positive or negative impact, respectively, on our results of operations. We expect that changes in certain factors affecting our performance will correlate with improvement or deterioration in the labor market.

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

Growing our business has resulted in, and will continue to result in, substantial investments in sales professionals, operating expenses, system development and programming costs and general and administrative expenses, which have and will continue to increase our expenses. Specifically, our revenue growth and geographic expansion drive increases in our employee headcount, which in turn precipitates increases in (i) salaries and benefits, (ii) stock-based compensation expense and (iii) facility costs related to the expansion of our corporate headquarters and operations facilities and additional sales office leases. In April 2019, we commenced construction of a new, expanded operations facility in Grapevine, Texas. On August 5, 2019, we purchased 107.5 acres of land adjacent to our corporate headquarters in Oklahoma City for \$19.2 million. While there are no immediate plans for development, we expect a portion of this land will be utilized to facilitate our growth in the future.

Our revenues are seasonal in nature. Recurring revenues include revenues relating to the annual processing of payroll forms, such as Form W-2, Form 1099, and Form 1095, and revenues from processing unscheduled payroll runs (such as bonuses) for our clients. Because payroll forms are typically processed in the first quarter of the year, first quarter revenues and margins are generally higher than in subsequent quarters. These seasonal fluctuations in revenues can also have an impact on gross profits. Historical results impacted by these seasonal trends should not be considered a reliable indicator of our future results of operations. For the three months ended September 30, 2019 and 2018, our total gross margins were approximately 85% and 83%, respectively. For the nine months ended September 30, 2019 and 2018, our total gross margins were 85% and 84%, respectively. Although our gross margins may fluctuate from quarter to quarter due to seasonality and hiring trends, we expect that our gross margins will remain relatively consistent in future periods.

Results of Operations

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

	Three Months Ended September 30,			Nine Months Ended September 30,						
	2019	2018	% Change	2019	2018	% Change				
Revenues										
Recurring	\$ 171,405	97.9%	\$ 130,830	98.2%	31%	\$ 534,267	98.2%	\$ 409,324	98.4%	31%
Implementation and other	3,601	2.1%	2,458	1.8%	47%	9,995	1.8%	6,680	1.6%	50%
Total revenues	<u>175,006</u>	<u>100.0%</u>	<u>133,288</u>	<u>100.0%</u>	<u>31%</u>	<u>544,262</u>	<u>100.0%</u>	<u>416,004</u>	<u>100.0%</u>	<u>31%</u>
Cost of revenues										
Operating expenses	21,088	12.1%	18,158	13.6%	16%	66,153	12.2%	56,403	13.6%	17%
Depreciation and amortization	5,304	3.0%	3,967	3.0%	34%	14,796	2.7%	10,258	2.4%	44%
Total cost of revenues	<u>26,392</u>	<u>15.1%</u>	<u>22,125</u>	<u>16.6%</u>	<u>19%</u>	<u>80,949</u>	<u>14.9%</u>	<u>66,661</u>	<u>16.0%</u>	<u>21%</u>
Administrative expenses										
Sales and marketing	47,060	26.9%	37,183	27.9%	27%	128,280	23.6%	101,182	24.3%	27%
Research and development	19,605	11.2%	11,526	8.7%	70%	54,869	10.1%	33,507	8.1%	64%
General and administrative	25,728	14.7%	22,048	16.5%	17%	98,386	18.0%	73,700	17.7%	33%
Depreciation and amortization	5,665	3.2%	4,161	3.1%	36%	15,848	2.9%	10,652	2.6%	49%
Total administrative expenses	<u>98,058</u>	<u>56.0%</u>	<u>74,918</u>	<u>56.2%</u>	<u>31%</u>	<u>297,383</u>	<u>54.6%</u>	<u>219,041</u>	<u>52.7%</u>	<u>36%</u>
Total operating expenses	<u>124,450</u>	<u>71.1%</u>	<u>97,043</u>	<u>72.8%</u>	<u>28%</u>	<u>378,332</u>	<u>69.5%</u>	<u>285,702</u>	<u>68.7%</u>	<u>32%</u>
Operating income	50,556	28.9%	36,245	27.2%	39%	165,930	30.5%	130,302	31.3%	27%
Interest expense	(260)	-0.1%	(384)	-0.3%	-32%	(794)	-0.1%	(418)	-0.1%	90%
Other income (expense), net	195	0.1%	583	0.4%	-67%	(168)	-0.1%	2,128	0.5%	-108%
Income before income taxes	50,491	28.9%	36,444	27.3%	39%	164,968	30.3%	132,012	31.7%	25%
Provision for income taxes	11,339	6.5%	7,675	5.7%	48%	29,772	5.5%	26,361	6.3%	13%
Net income	<u>\$ 39,152</u>	<u>22.4%</u>	<u>\$ 28,769</u>	<u>21.6%</u>	<u>36%</u>	<u>\$ 135,196</u>	<u>24.8%</u>	<u>\$ 105,651</u>	<u>25.4%</u>	<u>28%</u>

Revenues

The increase in total revenues for the three and nine months ended September 30, 2019 compared to the same periods in 2018 was primarily the result of (i) the addition of new clients and productivity and efficiency gains in mature sales offices, which are offices that have been open for at least 24 months, (ii) contributions from new sales offices opened in 2018 that are progressing to maturity, (iii) the sale of additional applications to our existing clients and (iv) higher average interest rates earned on increased balances of funds held for clients. In addition, the strong performance of our tax forms filing business in the first quarter contributed to the increase in total revenues for the nine months ended September 30, 2019 as compared to the same period in 2018.

The increase in implementation and other revenues for the three and nine months ended September 30, 2019 from the same periods in 2018 was primarily the result of the recognition of additional non-refundable conversion fees that are charged to new clients. These fees are deferred and recognized ratably over the ten-year estimated life of our clients.

Expenses

Cost of Revenues

During the three months ended September 30, 2019, cost of revenues increased from the comparable prior year period by \$4.3 million primarily due to an increase in operating expenses resulting from a \$2.4 million increase in expenses attributable to growth in the number of operating personnel and a \$0.4 million increase in shipping and automated clearing house fees related to the increase in revenues. Additionally, depreciation and amortization expense increased \$1.3 million, or 34%, primarily due to the development of additional technology and purchases of other related fixed assets.

During the nine months ended September 30, 2019, cost of revenues increased from the comparable prior year period \$14.3 million primarily due to an increase in operating expenses resulting from a \$6.2 million increase in expenses attributable to growth in the number of operating personnel and a \$3.3 million increase in shipping and automated clearing house fees related to the increase in revenues. Additionally, depreciation and amortization expense increased \$4.5 million, or 44%, primarily due to the development of additional technology and purchases of other related fixed assets.

Administrative Expenses

Sales and Marketing

During the three months ended September 30, 2019, sales and marketing expenses increased from the comparable prior year period by \$9.9 million due to a \$4.9 million increase in employee-related expenses, including commissions, bonuses and non-cash stock-based compensation, and a \$5.0 million increase in marketing and advertising expense. The increase in employee-related expenses was partially offset by a \$1.6 million decrease in non-cash stock-based compensation expense.

During the nine months ended September 30, 2019, sales and marketing expenses increased from the comparable prior year period by \$27.1 million due to a \$19.6 million increase in employee-related expenses, including commissions, bonuses and non-cash stock-based compensation, and a \$7.5 million increase in marketing and advertising expense. The increase in employee-related expenses included a \$0.1 million increase in non-cash stock-based compensation expense.

Research and Development

During the three months ended September 30, 2019, research and development expenses increased from the comparable prior year period due to an \$8.1 million increase in employee-related expenses, including a \$1.3 million increase in non-cash stock-based compensation expense. During the nine months ended September 30, 2019, research and development expenses increased from the comparable prior year period due to a \$21.4 million increase in employee-related expenses, including a \$2.4 million increase in non-cash stock-based compensation expense.

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

Expenditures for software developed or obtained for internal use are capitalized and amortized over a three-year period on a straight-line basis. The nature of the development projects underway during a particular period directly impacts the timing and extent of these capitalized expenditures and can affect the amount of research and development expenses in such period. The table below sets forth the amounts of capitalized and expensed research and development costs for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Capitalized portion of research and development	\$ 7,089	\$ 5,211	36%	\$ 22,726	\$ 16,419	38%
Expensed portion of research and development	19,605	11,526	70%	54,869	33,507	64%
Total research and development costs	<u>\$ 26,694</u>	<u>\$ 16,737</u>	59%	<u>\$ 77,595</u>	<u>\$ 49,926</u>	55%

General and Administrative

During the three months ended September 30, 2019, general and administrative expenses increased \$3.7 million from the comparable prior year period primarily due to an increase in employee-related expenses, which was partially offset by a \$0.2 million decrease in non-cash stock-based compensation expense.

During the nine months ended September 30, 2019, general and administrative expenses increased \$24.7 million from the comparable prior year period primarily due to an increase in employee-related expenses, which included a \$6.8 million increase in non-cash stock-based compensation expense.

Non-Cash Stock-Based Compensation Expense

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Non-cash stock-based compensation expense						
Operating expenses	\$ 750	\$ 332	126%	\$ 3,955	\$ 3,591	10%
Sales and marketing	344	1,976	-83%	5,453	5,332	2%
Research and development	1,586	248	540%	5,137	2,762	86%
General and administrative	1,774	1,953	-9%	26,577	19,800	34%
Total non-cash stock-based compensation expense	<u>\$ 4,454</u>	<u>\$ 4,509</u>		<u>\$ 41,122</u>	<u>\$ 31,485</u>	

During the three months ended September 30, 2019, our non-cash stock-based compensation expense decreased \$0.1 million from the comparable prior year period. During the nine months ended September 30, 2019, our non-cash stock-based compensation expense increased \$9.6 million from the comparable prior year period primarily due to the issuance and subsequent accelerated vesting of restricted stock subject to market-based vesting conditions during the first quarter of 2019, which exceeded expenses associated with the accelerated vesting of restricted stock subject to market-based vesting conditions in 2018.

Depreciation and Amortization

During the three and nine months ended September 30, 2019, depreciation and amortization expense increased from the comparable prior year periods primarily due to the development of additional technology and purchases of other related fixed assets.

Interest Expense

The changes in interest expense for the three and nine months ended September 30, 2019 were due to the amount of capitalized interest related to the timing of our construction projects with our expanded operations facility in Grapevine, Texas and our fourth headquarters building.

Other Income (Expense), net

The decrease in other income, net for the three and nine months ended September 30, 2019 was primarily due to the decrease in the fair value of our interest rate swap as compared to the three and nine months ended September 30, 2018.

Provision for Income Taxes

The provision for income taxes is based on a current estimate of the annual effective income tax rate adjusted to reflect the impact of discrete items. Significant management judgment is required in estimating operating income in order to determine our effective income tax rate. The lower effective tax rate for the nine months ended September 30, 2019 is primarily related to an increase of excess tax benefits from stock-based compensation related to vesting events.

Liquidity and Capital Resources

Our principal sources of capital and liquidity are our operating cash flow and cash and cash equivalents. Additionally, we maintain a senior secured revolving credit facility (the "Facility"), which can be accessed as needed to supplement our operating cash flow and cash balances. The Facility provides us the ability to borrow funds in the aggregate principal amount of \$75.0 million, which may be increased up to \$125.0 million, subject to obtaining additional lender commitments and certain approvals and satisfying certain other conditions. We believe our existing cash and cash equivalents and cash generated from operations will be sufficient to meet our working capital and capital expenditure needs over at least the next 12 months.

We have historically funded our operations from cash flows generated from operations, cash from the sale of equity securities and debt financing. Although we have funded most of the costs for ongoing construction projects at our corporate headquarters from available cash, we have incurred indebtedness for a portion of these costs. Further, all purchases under our stock repurchase plans were paid for from available cash.

Term Credit Agreement. On December 7, 2017, we entered into a senior secured term credit agreement (as amended from time to time, the "Term Credit Agreement") pursuant to which JPMorgan Chase Bank, N.A, Bank of America, N.A. and Kirkpatrick Bank made certain term loans to us (the "Term Loans"). Our obligations under the Term Loans are secured by a mortgage and first priority security interest in our headquarters property. The Term Loans mature on September 7, 2025 and bear interest, at our option, at either (a) a prime rate plus 1.0% or (b) an adjusted LIBOR rate for the interest period in effect for such Term Loan plus 1.5%. As of September 30, 2019, our indebtedness consisted solely of Term Loans made under the Term Credit Agreement.

Under the Term Credit Agreement, we are required to comply with certain financial and non-financial covenants, including maintaining a fixed charge coverage ratio of not less than 1.25 to 1.0 and a funded indebtedness to EBITDA ratio of not greater than 2.0 to 1.0. Additionally, the Term Credit Agreement contains customary affirmative and negative covenants, including covenants limiting our ability to, among other things, grant liens, incur debt, effect certain mergers, make investments, dispose of assets, enter into certain transactions including swap agreements and sale and leaseback transactions, pay dividends or distributions on our capital stock, and enter into transactions with affiliates, in each case subject to customary exceptions for a credit agreement of this size and type. As of September 30, 2019, we were in compliance with all covenants set forth in the Term Credit Agreement.

Interest Rate Swap Agreement. In connection with entering into the Term Credit Agreement, we also entered into a floating-to-fixed interest rate swap agreement to limit the exposure to interest rate risk related to the Term Loans (the “Interest Rate Swap Agreement”). The Interest Rate Swap Agreement, which has a maturity date of September 7, 2025, provides that we will receive quarterly variable interest payments based on the LIBOR rate and will pay interest at a fixed rate. We have elected not to designate this interest rate swap as a hedge and, as such, changes in the fair value of the derivative instrument are recognized in our consolidated statements of income. For the three and nine months ended September 30, 2019, we recognized a loss of \$0.4 million and \$1.8 million, respectively, for the change in fair value of the interest rate swap, which is included in Other income, net in the consolidated statements of income.

Revolving Credit Agreement. On February 12, 2018, we entered into a senior secured revolving credit agreement (the “Revolving Credit Agreement”) with JPMorgan Chase Bank, N.A. and Bank of America, N.A. that provided for the Facility in the aggregate principal amount of \$50.0 million (the “Revolving Commitment”), which could be increased to up to \$100.0 million, subject to obtaining additional lender commitments and certain approvals and satisfying certain other conditions. The Facility includes a \$5.0 million sublimit for swingline loans and a \$2.5 million sublimit for letters of credit. The Facility was scheduled to mature on February 12, 2020. On April 15, 2019, we entered into the First Amendment to Revolving Credit Agreement (the “First Amendment”). Pursuant to First Amendment, Wells Fargo Bank, N.A. was added as a lender and the Revolving Commitment was increased to \$75.0 million, which may be further increased to \$125.0 million subject to obtaining additional lender commitments and certain approvals and satisfying other conditions and the scheduled maturity date of the Facility was extended to April 15, 2022.

Borrowings under the Facility will generally bear interest at a prime rate plus 1.0% or, at our option, an adjusted LIBOR rate for the interest period in effect for such borrowing plus 1.5%, in each case subject to certain conditions set forth in the Revolving Credit Agreement.

Stock Repurchase Plan. In May 2016, our Board of Directors authorized a stock repurchase plan allowing for the repurchase of shares of our common stock in open market transactions at prevailing market prices, in privately negotiated transactions or by other means in accordance with federal securities laws, including Rule 10b5-1 programs. Since the initial authorization of the stock repurchase plan, our Board of Directors has amended and extended the stock repurchase plan from time to time. On February 13, 2018, we announced that our Board of Directors authorized the repurchase of up to an additional \$100.0 million of common stock. Most recently, on November 20, 2018, we announced that our Board of Directors authorized the repurchase of up to an additional \$150.0 million of our common stock. Our stock repurchase plan may be suspended or discontinued at any time. The actual timing, number and value of shares repurchased depends on a number of factors, including the market price of our common stock, general market and economic conditions, the shares withheld for taxes associated with the vesting of restricted stock and other corporate considerations.

During the nine months ended September 30, 2019, we repurchased an aggregate of 218,446 shares of common stock for an aggregate cost of \$42.2 million to satisfy tax withholding obligations for certain employees upon the vesting of restricted stock, as discussed below. As of September 30, 2019, there was \$119.7 million available for repurchases. The stock repurchase plan will expire on November 19, 2020.

Withholding Shares to Cover Taxes. During the nine months ended September 30, 2019, we withheld 218,446 shares to satisfy tax withholding obligations with respect to the delivery of vested shares of restricted stock to certain employees. Our payment of the taxes on behalf of those employees resulted in a cash expenditure of \$42.2 million and, as such, we generally subtract the amounts attributable to such withheld shares from the aggregate amount available for future purchases under our stock repurchase plan.

Cash Flow Analysis

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

As our business grows, we expect our capital expenditures and our investment activity to continue to increase. We are currently focused on the ongoing construction of our new Texas operations facility in Grapevine, Texas. Capital expenditures related to the construction of the facility began in the second quarter of 2019. Depending on certain growth opportunities, we may choose to

accelerate investments in sales and marketing, acquisitions, technology and services. Actual future capital requirements will depend on many factors, including our future revenues, cash from operating activities and the level of expenditures in all areas of our business.

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

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

Our cash flows from financing activities are also affected by the extent to which we use available cash to purchase shares of common stock under our stock repurchase plan as well as restricted stock vesting events that result in net share settlements and the Company paying withholding taxes on behalf of certain employees.

The following table summarizes the consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,		
	2019	2018	Change %
Net cash provided by (used in):			
Operating activities	\$ 176,419	\$ 145,849	21%
Investing activities	(78,148)	(86,378)	-10%
Financing activities	(175,445)	(249,928)	-30%
Change in cash, cash equivalents, restricted cash and restricted cash equivalents	<u>\$ (77,174)</u>	<u>\$ (190,457)</u>	-59%

Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2019 primarily consisted of payments received from our clients and interest earned on funds held for clients. Cash used in operating activities primarily consisted of personnel-related expenditures to support the growth and infrastructure of our business. These payments included costs of operations, advertising and other sales and marketing efforts, IT infrastructure development, product research and development and security and administrative costs. Compared to the nine months ended September 30, 2018, our operating cash flows for the nine months ended September 30, 2019 were positively impacted by the growth of our business.

Investing Activities

Cash flows used in investing activities for the nine months ended September 30, 2019 decreased from the comparable prior year period due to a \$76.3 million decrease in purchases of short-term investments from funds held for clients. The decrease in investing activities was partially offset by a \$41.3 million decrease in proceeds from maturities of short-term investments from funds held for clients and a \$26.8 million increase in cash used for purchases of property and equipment, which was primarily related to the land purchase related to our corporate headquarters expansion.

Financing Activities

Cash flows from financing activities for the nine months ended September 30, 2019 decreased from the comparable prior year period primarily due to the impact of \$54.6 million of changes in client funds obligation, which is due to the timing of receipts from our clients and payments made to our clients' employees and applicable taxing authorities on their behalf. Additionally, cash flows from financing activities were positively impacted by a \$42.9 million decrease in repurchases of common stock and a less than \$0.1 million decrease in the payment of debt issuance costs. These cash flows provided by financing activities were partially offset by a \$22.1 million increase in withholding taxes paid related to net share settlements and a \$0.9 million increase in payments on long-term debt.

Contractual Obligations

Our principal commitments primarily consist of long-term debt and leases for office space. There have been no material changes to our contractual obligations disclosed in the contractual obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K. For additional information regarding our leases, long-term debt and our commitments and contingencies, see "Note 5. Long-Term Debt, Net" and "Note 12. Commitments and Contingencies" in the Form

10-K and “Note 6. Leases”, Note 7. Long-Term Debt, Net” and “Note 13. Commitments and Contingencies” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Off-Balance Sheet Arrangements

As of September 30, 2019, we did not have any off-balance sheet arrangements that had or were reasonably likely to have an effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources that may be material to investors.

Critical Accounting Policies and Estimates

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

Certain accounting policies that require significant management estimates, and are deemed critical to our results of operations or financial position, are discussed in the critical accounting policies and estimates section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K. There have been no material changes to the critical accounting policies disclosed in the Form 10-K.

Adoption of Accounting Pronouncements

Discussion of our adoption of ASU 2016-02 and ASU 2016-18 can be found in Note 2 and Note 6 in “Part I, Financial Information – Item 1. Financial Statements” in this Form 10-Q.

Non-GAAP Financial Measures

Management uses adjusted EBITDA and non-GAAP net income as supplemental measures to review and assess the performance of our core business operations and for planning purposes. We define (i) adjusted EBITDA as net income plus interest expense, taxes, depreciation and amortization, non-cash stock-based compensation expense, certain transaction expenses that are not core to our operations (if any) and the change in fair value of our interest rate swap and (ii) non-GAAP net income as net income plus non-cash stock-based compensation expense, certain transaction expenses that are not core to our operations (if any) and the change in fair value of our interest rate swap, all of which are adjusted for the effect of income taxes. Adjusted EBITDA and non-GAAP net income are metrics that provide investors with greater transparency to the information used by management in its financial and operational decision-making. We believe these metrics are useful to investors because they facilitate comparisons of our core business operations across periods on a consistent basis, as well as comparisons with the results of peer companies, many of which use similar non-GAAP financial measures to supplement results under U.S. GAAP. In addition, adjusted EBITDA is a measure that provides useful information to management about the amount of cash available for reinvestment in our business, repurchasing common stock and other purposes. Management believes that the non-GAAP measures presented in this Form 10-Q, when viewed in combination with our results prepared in accordance with U.S. GAAP, provide a more complete understanding of the factors and trends affecting our business and performance.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income to adjusted EBITDA:				
Net income	\$ 39,152	\$ 28,769	\$ 135,196	\$ 105,651
Interest expense	260	384	794	418
Provision for income taxes	11,339	7,675	29,772	26,361
Depreciation and amortization	10,969	8,128	30,644	20,910
EBITDA	61,720	44,956	196,406	153,340
Non-cash stock-based compensation expense	4,454	4,509	41,122	31,485
Change in fair value of interest rate swap	391	(285)	1,763	(1,427)
Adjusted EBITDA	\$ 66,565	\$ 49,180	\$ 239,291	\$ 183,398

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income to non-GAAP net income:				
Net income	\$ 39,152	\$ 28,769	\$ 135,196	\$ 105,651
Non-cash stock-based compensation expense	4,454	4,509	41,122	31,485
Change in fair value of interest rate swap	391	(285)	1,763	(1,427)
Income tax effect on non-GAAP adjustments	(2,875)	(2,374)	(23,974)	(14,512)
Non-GAAP net income	\$ 41,122	\$ 30,619	\$ 154,107	\$ 121,197

Weighted average shares outstanding:

	2019	2018	2019	2018
Basic	57,654	57,727	57,528	57,785
Diluted	58,383	58,545	58,403	58,724

	2019	2018	2019	2018
Earnings per share, basic	\$ 0.68	\$ 0.50	\$ 2.35	\$ 1.83
Earnings per share, diluted	\$ 0.67	\$ 0.49	\$ 2.31	\$ 1.80
Non-GAAP net income per share, basic	\$ 0.71	\$ 0.53	\$ 2.68	\$ 2.10
Non-GAAP net income per share, diluted	\$ 0.70	\$ 0.52	\$ 2.64	\$ 2.06

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Earnings per share to non-GAAP net income per share, basic:				
Earnings per share, basic	\$ 0.68	\$ 0.50	\$ 2.35	\$ 1.83
Non-cash stock-based compensation expense	0.08	0.08	0.71	0.54
Change in fair value of interest rate swap	0.01	(0.01)	0.03	(0.02)
Income tax effect on non-GAAP adjustments	(0.06)	(0.04)	(0.41)	(0.25)
Non-GAAP net income per share, basic	\$ 0.71	\$ 0.53	\$ 2.68	\$ 2.10

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Earnings per share to non-GAAP net income per share, diluted:				
Earnings per share, diluted	\$ 0.67	\$ 0.49	\$ 2.31	\$ 1.80
Non-cash stock-based compensation expense	0.08	0.08	0.70	0.54
Change in fair value of interest rate swap	0.01	(0.01)	0.03	(0.03)
Income tax effect on non-GAAP adjustments	(0.06)	(0.04)	(0.40)	(0.25)
Non-GAAP net income per share, diluted	\$ 0.70	\$ 0.52	\$ 2.64	\$ 2.06

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

We had cash and cash equivalents totaling \$108.1 million as of September 30, 2019. These amounts are invested primarily in demand deposit accounts and money market funds. We consider all highly liquid debt instruments purchased with a maturity of three months or less and SEC-registered money market mutual funds to be cash equivalents. The primary objectives of our investing activities are capital preservation, meeting our liquidity needs and, with respect to investing client funds, generating interest income while maintaining the safety of principal. We do not enter into investments for trading or speculative purposes.

Our cash equivalents are subject to market risk due to changes in interest rates. The market value of fixed rate securities may be adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates.

As of September 30, 2019, an increase or decrease in interest rates of 100-basis points would not have had a material effect on our operating results or financial condition.

As described elsewhere in this Form 10-Q, the Term Loans made under the Term Credit Agreement bear interest, at our option, at either (a) a prime rate plus 1.0% or (b) an adjusted LIBOR rate for the interest period in effect for such Term Loan plus 1.5%. As a result, we are exposed to increased interest rate risk. To mitigate the increased interest rate risk, we entered into the Interest Rate Swap Agreement. The Interest Rate Swap Agreement has effectively fixed our interest rate at 4.0%, eliminating a portion of the variable rate and coinciding interest rate risk associated with the Term Loans.

As described elsewhere in this Form 10-Q, the Revolving Credit Agreement, as amended, provides for a Facility in the aggregate amount of \$75.0 million, which may be increased to up to \$125.0 million. Borrowings under the Facility will generally bear interest at a prime rate plus 1.0% or, at our option, an adjusted LIBOR rate for the interest period in effect for such borrowing plus 1.5%. As of September 30, 2019, we have not made any draws under the Facility. To the extent we make draws under the Facility in the future, we may be exposed to increased interest rate risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our chief executive officer and chief financial officer, evaluated, as of September 30, 2019, the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2019 to ensure that information required to be disclosed by us in this Form 10-Q is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosures.

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

Changes in Internal Control over Financial Reporting

There have been no material changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Except as set forth below, there have been no material changes from the information set forth in “Item 1A. Risk Factors” in the Form 10-K.

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

Our applications are subject to various complex laws and regulations on the federal, state and local levels, including those governing data security and privacy, which have become significant issues globally. The regulatory framework for privacy issues is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information. In the United States, these include rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, the Family Medical Leave Act of 1993, the Affordable Care Act, federal and state labor and employment laws, state data breach notification laws and state privacy laws, such as the California Consumer Privacy Act of 2018 (the “CCPA”) and the Illinois Biometric Information Privacy Act (the “IBIPA”). The CCPA provides consumers with a private right of action if covered companies suffer a data breach related to their failure to implement reasonable security measures, and the IBIPA includes a private right of action for persons who are aggrieved by violations of the IBIPA. Further, because some of our clients have establishments in the European Union, the E.U. General Data Protection Regulation, or GDPR, may impact our processing of certain client and employee information. Failure to comply with data protection and privacy laws and regulations could result in regulatory scrutiny and increased exposure to the risk of litigation or the imposition of consent orders or civil and criminal penalties, including fines, which could have an adverse effect on our results of operations or financial condition. Moreover, allegations of non-compliance, whether or not true, could be costly, time consuming, distracting to management, and cause reputational harm. For example, on March 11, 2019, two former employees of one of our clients, individually and on behalf of others similarly situated, filed a complaint against our client and us in the Circuit Court of Cook County, Illinois County Department, Chancery Division, alleging that we and our client violated the IBIPA in connection with the alleged collection, storage and use of information taken by biometric time clocks that we lease to the client. The original complaint was dismissed for failure to plead adequate facts to establish personal jurisdiction. On October 8, 2019, the plaintiffs’ amended complaint was dismissed. Plaintiff’s filed their Third Amended Complaint on October 22, 2019. While we believe the lawsuit is without merit and intend to defend it vigorously, even if we are ultimately successful in our defense, we will need to spend money, time and attention to defend against the complaint.

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

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

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

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 - 31, 2019(2)	11,479	\$ 238.85	11,479	\$ 120,800
August 1 - 31, 2019(2)	4,475	\$ 236.52	4,475	\$ 119,700
September 1 - 30, 2019	—	\$ —	—	\$ 119,700
Total	15,954		15,954	

(1) On November 20, 2018, we announced that our Board of Directors authorized a new stock repurchase plan, pursuant to which we are authorized to purchase (in the aggregate) up to \$150.0 million of our common stock in open market purchases, privately negotiated transactions or by other means. The current stock repurchase plan expires on November 19, 2020.

(2) Consists of shares withheld to satisfy tax withholding for certain employees upon the vesting of restricted stock.

Item 5. Other Information**Amendment to Employment Agreement**

On October 28, 2019, the Company and Chad Richison agreed to amend the Executive Employment Agreement dated December 30, 2013, by and between the Company and Mr. Richison (the “Employment Agreement”), to, among other things, allow Mr. Richison to pursue other noncompetitive outside business and non-business activities and interests while employed by the Company (the “Amendment”).

Waiver of Certain Provisions of Restricted Stock Award Agreement

On October 28, 2019, in connection with the Amendment, the Compensation Committee of the Board of Directors of the Company adopted by unanimous written consent a waiver (the “Waiver”) of certain provisions of the Restricted Stock Award Agreement entered into between the Company and Mr. Richison dated January 1, 2014 (the “Richison RSAA”). The waived provisions are (i) the potential for forfeiture of the 5,323,907 shares of restricted stock that were issued to Mr. Richison pursuant to the Richison RSAA (the “Richison Shares”) upon Mr. Richison engaging in “Forfeiture Activities” (as defined in the Richison RSAA) and (ii) the requirement that Mr. Richison pay to the Company all money received in respect of any Richison Shares that are transferred if Mr. Richison engages in Forfeiture Activities at any time during the term of employment with the Company or during the one-year period following termination of employment.

The foregoing descriptions of the Amendment and the Waiver are only a summary of their material terms and are qualified in their entirety by reference to the full text of (i) the Employment Agreement, a copy of which was filed as Exhibit 10.4 to the Company’s Registration Statement on Form S-1 dated March 10, 2014, (ii) the Paycom Software, Inc. 2014 Long-Term Incentive Plan, a copy of which was filed as Exhibit 10.2 to the Company’s Registration Statement on Form S-1 dated March 10, 2014, (iii) the Richison RSAA, a form of which was filed as Exhibit 10.6 to the Company’s Amendment No. 1 to the Registration Statement on Form S-1/A dated March 31, 2014, and (iv) the Amendment and the Waiver, copies of which are attached hereto as Exhibits 10.1 and 10.2, respectively, and are incorporated herein by reference.

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):

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Paycom Software, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Amendment No. 1 to the Registration Statement on Form S-1/A dated March 31, 2014, filed with the SEC on March 31, 2014). http://www.sec.gov/Archives/edgar/data/1590955/000119312514122537/d609623dex31.htm
3.2	Amended and Restated Bylaws of Paycom Software, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 6, 2015). https://www.sec.gov/Archives/edgar/data/1590955/000156459015009936/payc-ex32_560.htm
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 1 to the Registration Statement on Form S-1/A dated March 31, 2014, filed with the SEC on March 31, 2014). http://www.sec.gov/Archives/edgar/data/1590955/000119312514122537/d609623dex41.htm
4.2	Registration Rights Agreement (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-1 dated March 10, 2014, filed with the SEC on March 10, 2014). http://www.sec.gov/Archives/edgar/data/1590955/000119312514091543/d609623dex43.htm
4.3	Joinder to Registration Rights Agreement, by and among Paycom Software, Inc. and each of the signatories thereto, dated as of March 6, 2015 (incorporated by reference to Exhibit 4.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on May 13, 2015). http://www.sec.gov/Archives/edgar/data/1590955/000156459015004189/payc-ex46_20150331350.htm
4.4	Amendment No. 1 to the Registration Rights Agreement, by and among Paycom Software, Inc. and each of the signatories thereto, dated as of May 13, 2015 (incorporated by reference to Exhibit 4.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed with the SEC on August 7, 2015). http://www.sec.gov/Archives/edgar/data/1590955/000156459015006677/payc-ex47_102.htm
4.5	Joinder to Registration Rights Agreement, by and between Paycom Software, Inc. and the Mackesy Family Foundation, dated as of May 27, 2015 (incorporated by reference to Exhibit 4.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 6, 2015). http://www.sec.gov/Archives/edgar/data/1590955/000156459015009936/payc-ex49_182.htm
4.6	Joinder to Registration Rights Agreement, by and between Paycom Software, Inc. and Anthony & Christie de Nicola Foundation, dated as of August 13, 2015 (incorporated by reference to Exhibit 4.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 6, 2015). http://www.sec.gov/Archives/edgar/data/1590955/000156459015009936/payc-ex411_400.htm
4.7	Amendment No. 2 to Registration Rights Agreement, by and between Paycom Software, Inc. and each of the signatories thereto, dated as of September 15, 2015 (incorporated by reference to Exhibit 4.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 6, 2015). http://www.sec.gov/Archives/edgar/data/1590955/000156459015009936/payc-ex412_177.htm
4.8	Joinder to Registration Rights Agreement, by and between Paycom Software, Inc. and The Swani Family Foundation, dated as of October 13, 2015 (incorporated by reference to Exhibit 4.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 6, 2015). http://www.sec.gov/Archives/edgar/data/1590955/000156459015009936/payc-ex414_179.htm
4.9	Joinder to Registration Rights Agreement, by and between Paycom Software, Inc. and Paul & Anne-Marie Queally Family Foundation, dated as of October 13, 2015 (incorporated by reference to Exhibit 4.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 6, 2015). http://www.sec.gov/Archives/edgar/data/1590955/000156459015009936/payc-ex416_183.htm

Exhibit No.	Description
4.10	Joinder to Registration Rights Agreement, by and between Paycom Software, Inc. and Scully Family Charitable Foundation, dated as of December 2, 2015 (incorporated by reference to Exhibit 4.18 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 22, 2016). http://www.sec.gov/Archives/edgar/data/1590955/000156459016013001/payc-ex418_608.htm
10.1	First Amendment to Revolving Credit Agreement dated April 15, 2019, by and among Paycom Payroll, LLC as the borrower, Paycom Software, Inc. and certain of its subsidiaries as the guarantors, the lenders parties thereto and JPMorgan Chase Bank, N.A. as the administrative agent (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated April 15, 2019, filed with the SEC on April 18, 2019). https://www.sec.gov/Archives/edgar/data/1590955/000119312sss519110929/d730206dex101.htm
10.2*	Amended and Restated Executive Employment Agreement dated October 28, 2019, by and between Paycom Software, Inc. and Chad Richison.
10.3*	Unanimous Written Consent of the Compensation Committee of the Board of Directors of Paycom Software, Inc. dated October 28, 2019.
31.1*	Certification of the Chief Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. payc-ex311_9.htm
31.2*	Certification of the Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. payc-ex312_6.htm
32.1**	Certification of the Chief Executive Officer and Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. payc-ex321_7.htm
101.INS	Inline XBRL Instance Document – the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema 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 and contained in Exhibit 101)

* Filed herewith.

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PAYCOM SOFTWARE, INC.

Date: October 31, 2019

By: /s/ Chad Richison
Chad Richison
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 31, 2019

By: /s/ Craig E. Boelte
Craig E. Boelte
Chief Financial Officer
(Principal Accounting Officer and Principal Financial Officer)

AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT

This Amended and Restated Executive Employment Agreement (“**Agreement**”) is entered into by and between Paycom Software, Inc. (the “**Company**”) and Chad Richison (“**Executive**”). This Agreement is entered on October 28, 2019 and, other than with respect to those amended sections set forth herein, which amended sections shall be effective upon execution of this Agreement by each of the parties hereto, is effective as of January 1, 2014 (the “**Effective Date**”).

WHEREAS, the operations of the Company and its Affiliates (defined below) are a complex matter requiring direction and leadership in a variety of arenas;

WHEREAS, Executive possesses certain experience and expertise that qualify him to provide the direction and leadership required by the Company and its Affiliates;

WHEREAS, the Company has provided Executive with highly confidential information pertaining to the Company and its Affiliates and will continue to provide new confidential information after the execution of this Agreement;

WHEREAS, the Executive has disclosed to the Company that, while continuing to perform his duties as Chief Executive Officer and President of the Company, Executive may also seek to engage in other certain outside business activities unrelated to and not competitive with the Company’s business activities;

WHEREAS, the Company and Executive acknowledge and confirm that this Agreement arises from and is integrally related to Executive’s sale of the goodwill of a business to the Company; and,

WHEREAS, subject to the terms and conditions hereinafter set forth, the Company therefore wishes to employ Executive as an officer of the Company in the role as its Chief Executive Officer, and Executive wishes to accept such employment;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises, terms, provisions, and conditions set forth in this Agreement, the parties hereby agree:

1. Definitions. The following capitalized terms shall have the meanings set forth below.

1.1. “Affiliates” means, with respect to any particular Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such particular Person. As used in this definition, the term “control” shall mean (i) the ownership (directly or indirectly) of more than 50% of the ownership or voting interests of any particular Person or (ii) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise.

1.2. “Board” shall mean the Board of Directors of the Company.

1.3. “Cause” shall mean, with respect to Executive, the occurrence of any one of the following: (a) the repeated failure of Executive to perform such duties as are lawfully requested and communicated in writing to Executive by the Board or the board of directors of any subsidiary of the Company (to the extent such duties are consistent with Executive’s position with the Company or any of its subsidiaries), (b) the failure by such Executive to observe all reasonable, lawful material policies of the Company and its subsidiaries applicable to Executive and communicated to Executive in writing, (c) any action or omission constituting gross negligence or willful misconduct of such Person in the performance of his or her duties, (d) the material breach by Executive of any provision of Executive’s employment or the breach by Executive of any non-competition, non-solicitation or similar restrictive agreement with the Company or any of its subsidiaries, (e) any act or omission by Executive constituting fraud, embezzlement, disloyalty or dishonesty with respect to the Company or its subsidiaries, (f) the use by Executive of illegal drugs or repetitive abuse of other drugs or repetitive excess consumption of alcohol interfering with the performance of Executive’s duties, or (g) the commission by Executive of any felony or of a misdemeanor involving dishonesty, disloyalty or moral turpitude. Notwithstanding the foregoing, in the case of subsections (a), (b), (c), and (d) of this Section 1.3, Cause shall not be deemed to exist unless (i) Company gives Executive prior written notice that the Company believes Executive is in violation of subsections (a), (b), (c), or (d) of his Section 1.3; and (ii) Company gives Executive a ten (10) day opportunity to cure; and (iii) Executive fails to cure prior to the end of such ten (10) day period.

1.4. “Change in Control” shall mean the following: (a) any Person other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), directly or indirectly, of securities of the Company representing 50% or more of (i) the outstanding shares of common stock of the Company or (ii) the combined voting power of the Company’s then-outstanding securities (other than pursuant to a transaction described in clause (b) that does not constitute a Change in Control thereunder); (b) the Company is party to a merger or consolidation, or series of related transactions, which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving or another entity) at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such surviving or other entity outstanding immediately after such merger or consolidation (or a parent company thereof); (c) the sale or disposition of all or substantially all of the Company’s assets (or consummation of any transaction, or series of related transactions, having similar effect); (d) there occurs a change in the composition of the Board of Directors of the Company within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors; (e) the dissolution or liquidation of the Company; or (f) any transaction or series of related transactions that has the substantial effect of any one or more of the foregoing. Notwithstanding the foregoing, to the extent required to comply with Section 409A of the Code, no event shall be deemed a “Change in Control” unless such event also constitutes a change in ownership or control within the meaning of Section 409A of the Code.

1.5. “Code” shall mean the Internal Revenue Code of 1986, as amended.

1.6. “Compensation Committee” means the Compensation Committee of the Board.

1.7. “Confidential Information” shall mean trade secrets, confidential or proprietary information, and all other information, documents or materials owned, developed or possessed by the Company or its Affiliates that are not generally known to the public or within the industry of the Company. Confidential Information includes, but is not limited to, customer lists, preferences and contacts, financial information, business plans, product cost or pricing, information regarding future development, locations or acquisitions, personnel records (including records of the Company’s clients) and software programs. Confidential Information shall not include any information that is or becomes generally publicly available (other than as a result of violation of this Agreement by Executive).

1.8. “Incumbent Director” means each member of the Board on the Effective Date and each other member of the Board whose nomination or election to the Board is approved by a majority of the then Incumbent Directors.

1.9. “Person” has the meaning given in Section 7701(a)(1) of the Code. Person shall include more than one Person acting as a group as defined by the Final Treasury Regulations issued under Section 409A of the Code.

1.10. “Public Offering” shall mean an underwritten sale to the public of the Company’s equity securities (or its successor’s equity securities) pursuant to an effective registration statement filed with the SEC on Form S-1 (or any successor form adopted by the SEC) and after which the Company’s (or its successor’s) equity securities are listed on the New York Stock Exchange, the NYSE MKT or The NASDAQ Stock Market; provided, that a Public Offering shall not include any issuance of equity securities in any merger or other business combination, and shall not include any registration of the issuance of equity securities to existing securityholders or employees of the Company and its subsidiaries on Form S-4 or Form S-8 (or any successor form adopted by the SEC).

1.11. “Restricted Period” shall mean: (a) if the Termination Date is before the initial Public Offering, twelve (12) months following the Termination Date; or (b) if the Termination Date is after the initial Public Offering, thirty-six (36) months following the consummation of the initial Public Offering and twelve (12) months following the Termination Date (such twelve (12) month period to run concurrently with the aforementioned thirty-six (36) month period if both periods are applicable).

- 2. Term.** This Agreement shall commence on the Effective Date and shall continue until three (3) years following the consummation of the initial Public Offering (which was on April 21, 2014), subject to earlier termination as set forth in Section 5 below (“**Initial Term**”). The Agreement will automatically renew, subject to earlier termination as herein provided, for successive one (1) year periods (the “**Additional Terms**”), unless either Executive or the Company provides written notice of non-renewal at least forty-five (45) days prior to the expiration of the Initial Term or the then Additional Term, whichever is applicable. The Initial Term and any Additional Term(s) shall be referred to collectively as the “**Term**.” Notwithstanding the foregoing, and subject to earlier termination as herein provided, the presently-effective Additional Term of this Agreement shall continue through December 31, 2019, at which time it will be subject to expiration or renewal for a successive one (1) year Additional Term, as provided for in this section.
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3. Capacity and Performance.

3.1. Capacity. During the Term, Executive shall serve the Company as its Chief Executive Officer and President and shall report directly to the Board. During the Term, Executive shall be employed by the Company and shall perform such duties and responsibilities, consistent and customary with the positions of Chief Executive Officer and President, on behalf of the Company and its Affiliates as may reasonably be designated from time to time by the Board.

3.2. Capacity and Performance.

(a) During his employment with the Company, Executive shall devote his commercially reasonable efforts, but judgment, skill, and knowledge to the advancement of the business and interests of the Company and its Affiliates and to the discharge of his duties and responsibilities hereunder.

(b) It is acknowledged and agreed between the Company and Executive that Executive shall have the right and option to pursue other outside business and non-business activities and interests while employed by the Company pursuant to this Agreement, and may perform services and engage in activities for such other business entities so long as such activities and interests are not in violation of Executive's obligations to the Company pursuant to this Agreement. Such outside business and non-business activities and interest may include, but shall not be limited to, Executive performing services as a manager, managing member, officer, or director on behalf of other outside business or non-business entities not affiliated with the Company or its Affiliates.

(c) Notwithstanding the provisions of this Section 3.2, Executive shall not engage in any outside business activity that either: (i) are competitive with the products or services of the Company or its Affiliates (whether then-current or in development), or (ii) interfere with Executive's duties and responsibilities to the Company.

4. Compensation and Benefits. As compensation for all services performed by Executive during the Term, Executive shall receive the following:

4.1. Base Salary. During the Term, the Company shall pay Executive a base salary at a rate not less than Seven Hundred Eleven Thousand Three Hundred Sixty Dollars and Fifty Two Cents (\$711,360.52) per year, less any and all lawful withholdings or deductions, payable in accordance with the payroll practices of the Company for its executives, and subject to increases from time to time as may be approved by the Board ("**Base Salary**").

4.2. Bonus. Subject to the provisions of this Section 4.2, Executive shall be eligible to earn an annual bonus of 100% of his Base Salary (or such larger amount approved by the Compensation Committee) (the "**Target Bonus**") in accordance with the Company's bonus plan applicable to executive officers of the Company. The actual amount of the bonus payable with respect to a fiscal year (the "**Bonus**") shall be determined by the Compensation Committee, in its sole discretion, and shall be paid in accordance with the plans, policies and procedures adopted by the Compensation Committee from time to time.

4.3. Vacation. During the Term, Executive shall receive and be entitled to take vacation in accordance with the policies of the Company as in effect from time to time, and subject to the reasonable business needs of the Company. Executive shall not be entitled to payment for any accrued but unused vacation pay if the Company terminates Executive for Cause. However, if Executive's employment is terminated for any other reason, Executive shall be entitled to receive payment for all accrued but unused vacation pay.

4.4. Aircraft. During the Term, the Company shall either: (i) contract with NetJets or a similar private business jet charter company to provide 24 hour-per-day, 365 day-per-year access to a Medium Cabin private aircraft for Executive's business or personal travel; or (ii) purchase, lease or charter, and provide 24 hour-per-day, 365 day-per-year access to, a Medium Cabin private aircraft for Executive's business or personal travel. Executive shall be entitled to up to seventy-five (75) hours of flight time for Executive's designated non-Company use per calendar year pursuant to this Section, for which Executive shall not be required to reimburse the Company. To the extent Executive exceeds seventy-five (75) hours of non-Company flight time use in a calendar year, Executive shall reimburse the Company for any excess. The Company will withhold any required taxes or withholding with respect to the benefits described in this Section 4.4 from Executive's Base Salary.

4.5. Company Automobile. During the Term, the Company shall provide Executive use of a Company automobile with a lease value of up to Two Thousand Dollars (\$2,000.00) per month for Executive's business or personal use, less any required taxes or withholdings.

4.6. Personal Security. During the Term, the Company shall pay the reasonable expenses for Executive's personal and home security.

4.7. Country Club. During the Term, the Company shall provide Executive with a Country Club membership in any country club or recreational sports club of Executive's choosing at a cost of up to Seven Hundred Fifty Dollars (\$750.00) per month, less any required taxes or withholdings.

4.8. Administrative Assistant. During the Term, the Company shall provide Executive with one (1) full-time administrative assistant mutually agreed upon by the Company and Executive. As Executive directs from time to time, the administrative assistant may assist the Executive with all manner of Executive's business dealings and personal dealings, including Executive's business dealings on behalf of the Company, personal and family matters, and/or Executive's outside business and non-business activities. It is additionally agreed between the Company and Executive that, from time to time and on an as-needed basis, Executive may additionally use other Company administrative staff to assist Executive in all manner of Executive's other non-Company activities.

4.9. Other Benefits. Executive shall be entitled to participate in or receive benefits under the Company's Executive Benefit Plan and any plan or arrangement made available from time to time by the Company to its employees generally (including any health, dental, vision, disability, life insurance, 401k, or other retirement programs) ("**Benefits**"). Any such plan or arrangement shall be revocable and subject to termination or amendment at any time only in accordance with the terms and conditions of such plans or arrangements, without recourse by

Executive, provided that no such termination or amendment shall disadvantage Executive or his wife or dependents disproportionately to any other participants therein (except as may be required by laws or regulations, such as those related to “top-heavy” or “top hat” plans).

4.10. Business Expenses. The Company shall pay or reimburse Executive for all reasonable, customary and necessary business expenses incurred or paid by Executive in the performance of his duties and responsibilities hereunder, subject to any maximum annual limit and other restrictions on such expenses set by the Board and to such reasonable substantiation and documentation as may be specified by the Company from time to time.

4.11. Clawback. Executive acknowledges and agrees that any compensation or benefits paid to Executive by the Company, pursuant to this Agreement or otherwise, shall be subject to recovery by the Company in accordance with Section 304 of the Sarbanes-Oxley Act of 2002 or any other clawback law or regulation applicable to executives of the Company, if any, as amended from time to time.

- 5. Termination of Employment and Severance Benefits During the Term.** Notwithstanding the provision of Section 2 hereof and subject to the provisions of Section 20 below, Executive's employment may terminate prior to or at the expiration of the Term under the following circumstances (each, a “**Termination Date**”):

5.1. Death. In the event of Executive's death during the Term, Executive's employment hereunder shall immediately and automatically terminate. In such event, the Company, shall pay to Executive's designated beneficiaries or, if no beneficiaries have been designated by Executive, to his estate, (i) the Base Salary earned but not paid through the Termination Date; (ii) the amount of any accrued but unused vacation calculated as of the Termination Date; and (iii) any business expenses incurred by Executive but un-reimbursed on the Termination Date, provided that such expenses and required substantiation and documentation are submitted within ninety (90) days of termination and that such expenses are reimbursable under Company policy (all of the foregoing, “**Final Compensation**”). The Final Compensation shall be paid by the Company on the next regular payroll period following his death (or, if later, on the next regular payroll period after the Company receives notice of Executive's death).

5.2. Disability.

(a) If, as a result of Executive's incapacity due to physical or mental illness, Executive shall have been unable to perform the essential functions of the Executive's duties with the Company for one hundred eighty (180) consecutive calendar days or two hundred seventy (270) non-consecutive days in any eighteen (18) month period, and within thirty (30) days after written notice of termination Executive shall not have returned to the performance of the essential functions of his duties, with or without reasonable accommodations, the Company may thereafter notify Executive of termination. In the event of such termination, the Company shall pay to Executive the Final Compensation on the next regular payroll period following his Termination Date.

(b) The Board may designate another employee to act in Executive's place during any period of Executive's disability which shall not constitute Good Reason

hereunder. Notwithstanding any such designation, Executive shall continue to receive his compensation and benefits in accordance with Section 4, to the extent permitted by the then-current terms of the applicable benefit plans, until Executive becomes eligible for disability income benefits under the Company's disability income plan or until the termination of his employment, whichever shall first occur.

5.3. By the Company for Cause. During the Term, the Company may terminate Executive's employment for Cause as defined in Section 1.3 above, after the Company provides Executive with written notice identifying the reasons constituting such Cause (and subject to any applicable cure period as may be specifically provided in Section 1.3). If Executive's employment is terminated for Cause as defined in Section 1.3 above, then the Company shall have no further obligation to Executive other than to pay his Final Compensation on the next regular payroll period following his Termination Date.

5.4. By the Company Without Cause. During the Term, the Company may terminate Executive's employment without Cause at any time. If Executive's employment is terminated by the Company without Cause following the initial Public Offering then, in addition to paying Executive the Final Compensation and subject to Executive's compliance with Article 7 in all material respects, the Company shall: (a) continue to pay Executive the Base Salary at the rate in effect on the Termination Date during the Restricted Period, with the first payment being on the Company's next regular payroll period which is at least eight (8) business days following the effective date of the Release (defined below) (provided that if the 60-day time period for the Release begins in one taxable year and ends in a subsequent taxable year, the first payment shall be paid in the subsequent taxable year (for example, if Executive terminates on December 1, then the first payment shall not be paid until on or after January 1 of the next year, regardless of when the Release is returned)); (b) continue Executive's health insurance benefits for the Restricted Period (at a cost no less favorable than that paid by Executive immediately prior to the Termination Date) or the economic equivalent thereto if such continuation is not permissible under the terms of the Company's health insurance plan or would otherwise expose the Company to tax or other penalties; (c) continue to pay the reasonable expenses for Executive's security for a period of two years after termination of this Agreement and consistent with the Company's provision of such security pursuant to Section 4.6 during the Term; and (d) pay Executive an amount equal to the pro rata amount of the Bonus Executive would have earned for the year in which the termination occurred, based on the Company's performance for the entire fiscal year in which the termination occurred relative to the performance measurements that were pending at the time of termination and to be used to determine Executive's bonus for such year. Any such prorated Bonus shall be payable at such time or times as bonuses are payable to the other executives of the Company (the benefits, which the parties acknowledge are not required by law, outlined in Section(s) 5.4(a), (b) (c) and (d) are collectively referenced as the "**Severance**"). Any obligation of the Company to provide Executive the Severance is conditioned on Executive signing, delivering to the Company and not revoking a release, in a form acceptable to the Company (the "**Release**"), within sixty (60) days of his Termination Date, which Release in any event will require Executive to reaffirm his obligations and commitments to the Company under Section 7 of this Agreement.

5.5. By Executive for Good Reason. During the Term, Executive may terminate his employment for Good Reason in accordance with this Section 5.5. The following shall constitute "**Good Reason**" for termination by Executive:

- (a) any material reduction by the Company in Executive's Base Salary without Executive's prior consent;
- (b) any change, made by the Company and without Executive's written consent in his individual capacity, in Executive's status, reporting, duties or position that represents a demotion or diminution from Executive's status, reporting, duties or position as President, Chief Executive Officer, and Chairperson of the Board as such positions were in effect at the time this Agreement was entered into; and/or
- (c) any material breach of this Agreement by the Company.

Executive shall not be deemed to have been terminated for Good Reason pursuant to Section(s) 5.5(a), (b) or (c) above unless Executive delivers to the Company a written notice identifying the reasons constituting Good Reason. For purposes of this Agreement, Good Reason shall not be deemed to exist unless (x) Executive gives the Company written notice of his objection to such occurrence constituting Good Reason within forty-five (45) days after Executive first learns of such occurrence, (y) such occurrence is not corrected by the Company within twenty (20) days of its receipt of such notice, and (z) Executive resigns his employment with the Company for such Good Reason by written notice to the Company not more than thirty (30) days following the expiration of the 20-day cure period.

If Executive's employment is terminated by Executive for Good Reason following the initial Public Offering then, in addition to immediately paying Executive the Final Compensation, Executive shall be paid the Severance at the same time and subject to the same terms and conditions as described in Section 5.4 hereof. Any obligation of the Company to provide Executive the Severance is conditioned on Executive signing, delivering the Release to the Company and not revoking the Release as provided therein within sixty (60) days of his Termination Date.

5.6. By Executive Other than for Good Reason. During the Term, Executive may terminate his employment at any time upon sixty (60) days' written notice to the Company. In the event of termination of Executive pursuant to this Section 5.6, the Board may elect to waive the period of notice, or any portion thereof, and, if the Board so elects, the Company shall pay Executive his Base Salary for the notice period (or for any remaining portion of the period). If Executive's employment is voluntarily terminated by him other than for Good Reason, then the Company shall pay Executive the Final Compensation on the next regular payroll period following his Termination Date.

5.7. By Expiration of the Term. Upon expiration of the Term, if Executive's employment with the Company terminates at the expiration of the Term, Executive shall be paid the Final Compensation on the next regular payroll period following his Termination Date. If the expiration of the Term was the result of the Company issuance of a notice of non-renewal to Executive pursuant to Section 2, then, in addition to paying Executive the Final Compensation, Executive shall be paid the Severance at the same time and subject to the same terms as described in Section 5.4 hereof. Any obligation of the Company to provide Executive the Severance is conditioned on Executive signing, delivering the Release to the Company and not revoking the Release as provided therein within sixty (60) days of his Termination Date.

6. Effect of Termination.

6.1. Benefits. Except as may apply pursuant to any Severance provided for in this Agreement, benefits to Executive shall terminate pursuant to the terms of the applicable benefit plans based on the date of the termination of Executive's employment without regard to any continuation of Base Salary or other payment to Executive following such Termination Date.

6.2. Restricted Stock Grants. The restricted stock grants made pursuant to those certain Restricted Stock Award Agreements by and between the Company (or its successor or affiliate) and Executive shall vest in accordance with the terms of such agreements.

6.3. Survival of Obligations. Provisions of this Agreement shall survive any termination of Executive's employment hereunder, including termination of this Agreement upon the expiration of the Term, if so provided herein or if necessary or desirable to accomplish the purposes of other surviving provisions, including without limitation the obligations of Executive under Sections 7 and 8 hereof and the obligations of the Company under Section 5.

7. Confidential Information, Ownership of Information, Inventions, Work Product, Restrictive Covenants and Defend Trade Secrets Act.

7.1. Confidential Information. Executive acknowledges that the Company and its Affiliates continually develop Confidential Information, that Executive may develop Confidential Information for the Company or its Affiliates, and that the Company has and will continue to provide Executive with Confidential Information during the course of his employment. Executive will comply with the policies and procedures of the Company and its Affiliates for protecting Confidential Information and shall not disclose to any person or entity or use, other than as required by applicable law or for the proper performance of his duties and responsibilities to the Company and its Affiliates, any Confidential Information obtained by Executive incident to his employment by the Company or any of its Affiliates. Notwithstanding this Section 7.1 or any other provision of this Agreement, (a) Executive may disclose Confidential Information when required to do so by a court of competent jurisdiction, by any governmental agency having authority over Executive or the business of the Company or its Affiliates or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information; and (b) nothing in this Agreement is intended to interfere with Executive's right to (i) report possible violations of state or federal law or regulation to any governmental or law enforcement agency or entity; (ii) make other disclosures that are protected under the whistleblower provisions of state or federal law or regulation; (iii) file a claim or charge with the Equal Employment Opportunity Commission ("EEOC"), any state human rights commission, or any other governmental agency or entity; or (iv) testify, assist, or participate in an investigation, hearing, or proceeding conducted by the EEOC, any state human rights commission, any other governmental or law enforcement agency or entity, or any court. For purposes of clarity, in making or initiating any such reports or disclosures or engaging in any of the conduct outlined in subsection (b) above, Executive may disclose Confidential Information to the extent necessary to such governmental or law enforcement agency or entity or such court, need not seek prior authorization from the Company or its Affiliates, and is not required to notify the Company or its Affiliates of any such reports, disclosures or conduct.

7.2. Safeguard and Return of Documents. All documents, records, tapes, and other media of every kind and description relating to the business, present or otherwise, of the Company or its Affiliates, and any copies, in whole or in part, thereof (the “**Documents**”), whether or not prepared by Executive, shall be the sole and exclusive property of the Company and its Affiliates. Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates all Documents then in Executive's possession or control with the exception of this Agreement or other documents related to Executive's compensation or benefits.

7.3. Ownership of Information, Inventions and Original Work. Executive agrees that, in connection with his employment with the Company, any creative works, discoveries, developments, designs, software, computer programs, inventions, improvements, modifications, enhancements, know-how, formulation, concept, methods, processes, or idea which is made, conceived, created, developed or reduced to practice by Executive, either alone or with others (collectively referred to as “**Work Product**”) is the exclusive property of the Company if:

(a) Confidential Information of the Company was used in its conception or development; or

(b) It (i) relates, at the time of conception or reduction to practice, to a product or service of the Company, (ii) relates, at the time of conception or reduction of practice, to a research or development project of the Company that was demonstrably anticipated or existed prior to or at the time of the termination of Executive's employment with the Company and/or its subsidiaries, or (iii) results from any work performed by Executive for the Company. Notwithstanding Section 7.3(b), if the foregoing intellectual property described in Section 7.3(b) is conceived, developed or reduced to practice entirely after the Executive is no longer an employee of the Company, then such intellectual property shall not constitute Work Product.

Executive agrees to assist the Company in obtaining a patent or copyrights on such Work Product and to provide such documentation and assistance as is necessary for the Company to obtain such patent or copyright. Executive shall maintain adequate written records of such Work Product in such format as may be specified by the Company. Such records of such Work Product will be available to and remain the sole property of the Company at all times.

7.4. Restrictive Covenants. Executive acknowledges that, in order to effectuate the promise to hold Confidential Information in trust for the Company and in order to protect the Company's legitimate business interests (which include, but are not limited to, continuation of contracts and relationships with its customers, its reputation, its competitive advantage and its goodwill), it is necessary to enter into the following restrictive covenants. Without the prior written consent of the Company, Executive shall not, during the Restricted Period:

(a) directly or indirectly manage, operate, control, participate in, consult with, render services for or in any manner engage in any business or enterprise (including any division, group or franchise of a larger organization), whether as a proprietor, owner, member, partner, stockholder, director, officer, employee, consultant, joint venturer, investor, sales representative or other participant, in which the Company or any of its subsidiaries engaged at any time during the two year period immediately preceding the

date Executive's employment with the Company and its subsidiaries terminates (or the date of determination if the date of determination is prior to the date Executive's employment with the Company and its subsidiaries terminated) or engages or proposes to engage as of such termination date (or the date of determination if the date of determination is prior to the date Executive's employment with the Company and its subsidiaries terminated), in each case, anywhere in any State where the Company or one of its subsidiaries maintained an office immediately preceding such termination date (or the date of determination if the date of determination is prior to the date Executive's employment with the Company and its subsidiaries terminated);

(b) directly or indirectly induce or attempt to induce any employee of the Company or any of its subsidiaries to leave the employ of such entity;

(c) subject to the restrictions of any applicable law, directly or indirectly induce or attempt to induce any established customer of the Company or any of its subsidiaries to cease doing business with, or materially alter its business relationship with, such entity;

(d) directly or indirectly solicit the sale of goods or services, or a combination thereof, to established customers of the Company or any of its subsidiaries; or

(e) make or solicit or encourage others to make or solicit directly or indirectly any derogatory or negative statement or communication about the Company, its subsidiaries or any of their respective businesses, products, services or activities; provided, however, that the restriction set forth in this clause (e) will not prohibit truthful testimony compelled by valid legal process.

Notwithstanding the foregoing, Executive shall not be prohibited from owning up to one percent of the outstanding stock of a corporation which is publicly traded and competes with the business of the Company, so long as Executive has no active participation in the business of such corporation.

7.5. Defend Trade Secrets Act. Executive is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Executive files a lawsuit for retaliation against the Company or its Affiliates for reporting a suspected violation of law, Executive may disclose the Company's or its Affiliates' trade secrets to Executive's attorney and use the trade secret information in the court proceeding if Executive files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.

8. Assignment of Rights to Work Product. Executive hereby assigns and agrees to assign to the Company (or as otherwise directed by the Company) Executive's full right, title and interest in and to all Work Product (as that term is defined in Section 7.3 above). Executive agrees to execute any and all applications for domestic and foreign patents, copyrights, or other proprietary

rights and to do such other acts (including, without limitation, execute and delivery of instruments of further assurance or confirmation) requested by the Company to assign the Work Product to the Company and to permit the Company to enforce any patents, copyrights, or other proprietary rights to the Work Product. All copyrightable works that Executive creates in the course of his employment by the Company shall be considered “work made for hire.”

9. **Enforcement of Covenants.** Executive agrees that these restraints are necessary for the reasonable and proper protection of the Company and its subsidiaries and their trade secrets and Confidential Information and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area, and that these restraints, individually or in the aggregate, will not prevent Executive from obtaining other suitable employment during the period in which Executive is bound by the restraints. Executive acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company and its subsidiaries, that Executive has sufficient assets and skills to provide a livelihood while such covenants remain in force and that, as a result of the foregoing, in the event that Executive breaches such covenants, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper. Executive therefore agrees that the Company, in addition to any other remedies available to it, will be entitled to preliminary and permanent injunctive relief against any breach by Executive of any of those covenants, without the necessity of showing actual monetary damages or the posting of a bond or other security. Executive and the Company further agree that, in the event that any provision of Article 7 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision will be deemed to be modified to permit its enforcement to the maximum extent permitted by law. It is also agreed that each of the Company's subsidiaries will have the right to enforce all of Executive's obligations to that subsidiary under this Agreement, including without limitation pursuant to Article 7.

10. **Assignment and Succession.**

10.1. **No Assignment by Executive.** This Agreement is personal to Executive and shall not be assignable by Executive.

10.2. **Succession.** This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

11. **Notices.** All notices which are required or may be given pursuant to the terms of this Agreement shall be in writing and shall be sufficient in all respects if given in writing and (i) delivered personally, (ii) mailed by certified or registered mail, return receipt requested and postage prepaid, (iii) sent via a nationally recognized overnight courier or (iv) sent via facsimile confirmed in writing as follows:

If to the Company:

Paycom Software, Inc.
7501 W. Memorial Road
Oklahoma City, OK 73142

Attention: Board of Directors

If to Executive:

Mr. Chad Richison
23700 N. Pennsylvania Ave.
Edmond, OK 73025

or to such other address or addresses as either party shall have designated in writing to the other party hereto, provided, however, that any notice sent by certified or registered mail shall be deemed delivered on the date of delivery as evidenced by the return receipt.

12. **Severability.** If any portion or provision of this Agreement shall, to any extent, be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application or such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.
 13. **Waiver.** No waiver of such provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require the performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.
 14. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof, and supersedes all prior communications, agreements and understandings, written or oral, with respect to the terms and conditions of Executive's employment, including Section 5(e) of the Securities Purchase Agreement dated July 2, 2007 by and among WCAS Paycom Holdings, Inc., Paycom Payroll, LLC, Ernest Group, Inc., The Ruby Group, Inc., Executive, Shannon Rowe, William Kerber and Henry J. Binkowski and excluding only any agreements governing the rights and obligations of the Company and Executive with respect to the securities of the Company, and any Company-provided separate benefit or severance plans, all of which remain in full force and effect in accordance with their terms.
 15. **Amendment.** This Agreement may be amended or modified only by a written instrument signed by Executive and by an expressly authorized representative of the Board.
 16. **Headings.** The headings and captions in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.
 17. **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.
 18. **Governing Law.** This Agreement shall be construed, and the legal relations between the parties determined, in accordance with the laws of the State of Delaware, without regard to its conflicts of law rules. To the extent that a court of competent jurisdiction concludes that application of Delaware law to all or part of Section 7.4 is contrary to Oklahoma public policy or
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statutes, Executive acknowledges that this Agreement relates to Executive's sale of the goodwill of the Company, as defined in 15 O.S. § 218, and agrees to comply with Sections 7.4(a)-(d) to the fullest extent permitted by law.

19. Attorney's Fees. The Company agrees to pay or reimburse Executive for the reasonable attorney fees incurred by Executive in connection with the review of this Agreement and any related documents, up to a maximum of Fifteen Thousand Dollars and Zero Cents (\$15,000.00). Such payment will be made promptly following the date Executive executes this Agreement with the Company, upon receipt by the Company of an appropriate invoice from the attorney for the fees with respect to such review.

20. Section 409A of the Code.

(a) To the extent (i) any payments to which Executive becomes entitled under this Agreement, or any agreement or plan referenced herein, in connection with Executive's termination of employment with the Company constitute deferred compensation subject to Section 409A of the Code; (ii) Executive is deemed at the time of his separation from service to be a "specified employee" under Section 409A of the Code; and (iii) at the time of Executive's separation from service the Company is publicly traded (as defined in Section 409A of Code), then such payments (other than any payments permitted by Section 409A of the Code to be paid within six (6) months of Executive's separation from service) shall not be made until the earlier of (x) the first day of the seventh month following Executive's separation from service or (y) the date of Executive's death following such separation from service. During any period that payment or payments to Executive are deferred pursuant to the foregoing, Executive shall be entitled to interest on the deferred payment or payments at a per annum rate equal to Federal-Funds rate as published in The Wall Street Journal on the date of Executive's termination of employment with the Company. Upon the expiration of the applicable deferral period, any payments which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this Section 19 (together with accrued interest thereon) shall be paid to Executive or Executive's beneficiary in one lump sum.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" (within the meaning of Section 409A of the Code).

(c) For purposes of Section 409A of the Code, each payment under Section 5 hereof (and each other severance plan payment) will be treated as a separate payment.

(d) Any reimbursement of expenses made under this Agreement shall only be made for eligible expenses incurred during the Term, and no reimbursement of any expense shall be made by the Company after December 31st of the year following the calendar year in which the expense was incurred. Any amount eligible for reimbursement under this Agreement during a taxable year may not affect expenses eligible for reimbursement in any other taxable year, and any right to reimbursement under this Agreement is not subject to liquidation or exchange for another benefit.

(e) It is intended that this Agreement comply with the provisions of Section 409A of the Code and the regulations and guidance of general applicability issued thereunder so as to not subject Executive to the payment of additional interest and taxes under Section 409A of the Code, and in furtherance of this intent, this Agreement shall be interpreted, operated and administered in a manner consistent with these intentions.

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Executive Employment Agreement as of the date first set forth above.

EXECUTIVE

PAYCOM SOFTWARE, INC.

/s/ Chad Richison

Chad Richison

/s/ Frederick C. Peters, II

By: Frederick C. Peters, II

Title: Lead Director of the Board of Directors, on behalf of the
Board of Directors

**UNANIMOUS WRITTEN CONSENT
OF
THE COMPENSATION COMMITTEE
OF
THE BOARD OF DIRECTORS
OF
PAYCOM SOFTWARE, INC.
October 28, 2019**

Pursuant to and in accordance with Section 141(f) of the Delaware General Corporation Law, as amended and Article III, Section 3.10 of the Bylaws of Paycom Software, Inc. (the “*Company*”), the undersigned, constituting all of the members of the Compensation Committee (the “*Committee*”) of the Board of Directors of the Company (the “*Board*”), without a meeting (the call and notice of which are hereby expressly waived), without prior notice, and without a vote, do hereby adopt the following resolutions by unanimous written consent effective as of the date first set forth above:

WHEREAS, in 2011, 2012 and 2013, the Company’s predecessor, Paycom Payroll Holdings, LLC, issued various equity grants of incentive units to Chad Richison in accordance with multiple equity grant agreements between Chad Richison and the Company’s predecessor;

WHEREAS, in January 2014, the Company underwent a corporate reorganization and various obligations of the Company’s predecessor became obligations of the Company;

WHEREAS, the Board previously adopted, and the Company’s then sole stockholder previously approved, the Paycom Software, Inc. 2014 Long-Term Incentive Plan (the “*Incentive Plan*”) on December 30, 2013;

WHEREAS, effective as of January 1, 2014, the Committee approved the issuance under the Incentive Plan of shares of restricted stock to certain of the Company’s officers and employees, including Chad Richison (“*Richison*”) pursuant to a Restricted Stock Award Agreement entered into between the Company and Richison dated January 1, 2014 (the “*Initial 2014 Richison RSAA*”);

WHEREAS, 5,323,907 shares of restricted stock were issued to Richison pursuant to the Initial 2014 Richison RSAA (the “*Richison Shares*”), which initial 2014 Richison RSAA (i) superseded and replaced the prior 2011, 2012, and 2013 equity grant agreements and (ii) effected the issuance of the Richison Shares that were converted from incentive units pursuant to the Company’s reorganization effective January 1, 2014;

WHEREAS, since their issuance, the Richison Shares have remained subject to certain terms and conditions of the Incentive Plan and the Initial Richison RSAA, including (i) the potential for forfeiture of the Richison Shares upon Richison engaging in “*Forfeiture Activities*” (as defined in the Richison RSAA) and (ii) the requirement that Richison pay to the Company all money received in respect of any Richison Shares that are transferred if Richison engages in Forfeiture Activities at any time during the term of employment with the Company or during the one-year period following termination of employment (the provisions described in the foregoing clauses (i) and (ii) are hereby

collectively referred to as the “*Clawback Limitation and Remedy*”);

WHEREAS, Richison has advised the Committee that, because the Clawback Limitation and Remedy continues to apply to the Richison Shares throughout and for one year after his employment with the Company ceases, the Clawback Limitation and Remedy presently provides Richison with a disincentive to maintain his longstanding continuous tenure as an employee of the Company;

WHEREAS, the Committee greatly values Richison’s longstanding and continuous tenure with the Company as its founder and Chief Executive Officer and believes it is in the best interests of the Company to incentivize Richison’s continuous and longstanding tenure with the Company; and

WHEREAS, under Section 5 of the Initial 2014 Richison RSAA and Section 6.4(b)(i) of the Incentive Plan, the Committee has the authority and ability to waive the Clawback Limitation and Remedy and has determined that it is in the best interests of the Company to waive the Clawback Limitation and Remedy in conjunction with the contemporaneous amendment and restatement of Richison’s employment agreement.

NOW, THEREFORE, BE IT

RESOLVED, that the Committee hereby specifically waives the Clawback Limitation and Remedy for the 5,323,907 Richison Shares received by Richison pursuant to the Initial 2014 Richison RSAA; and, be it

FURTHER RESOLVED, that nothing in these resolutions shall be construed to modify any terms or provisions of the Initial 2014 Richison RSAA, other than those provisions of the Initial 2014 Richison RSAA that are specifically waived as set forth above.

FURTHER RESOLVED, that nothing in these resolutions shall be construed to modify, limit or effect any terms or provisions of the Restricted Stock Award Agreements with Richison and issued July 8, 2015, April 15, 2016, October 4, 2016, April 26, 2017, January 26, 2018 and January 17, 2019 (collectively, the “*Other Richison RSAA Agreements*”), including any clawback limitation or any clawback remedy, as applicable, that may be contained in any of the Other Richison RSAA Agreements.

*Remainder of Page Intentionally Left Blank.
Signature Page to Follow.*

above. **IN WITNESS WHEREOF**, the undersigned have executed this Unanimous Written Consent effective as of the date first written

/s/ Jason D. Clark
Jason D. Clark

/s/ Henry C. Duques
Henry "Ric" Duques

/s/ Janet Haugen
Janet Haugen

/s/ Frederick C. Peters II
Frederick C. Peters II

/s/ J.C. Watts, Jr.
J.C. Watts

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Chad Richison, certify that:

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

Date: October 31, 2019

By: /s/ Chad Richison

Chad Richison
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Craig E. Boelte, certify that:

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

Date: October 31, 2019

By: /s/ Craig E. Boelte

Craig E. Boelte
Chief Financial Officer
(Principal Financial Officer)

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Paycom Software, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

Date: October 31, 2019

By: /s/ Chad Richison
Chad Richison
Chief Executive Officer
(Principal Executive Officer)

Date: October 31, 2019

By: /s/ Craig E. Boelte
Craig E. Boelte
Chief Financial Officer
(Principal Financial Officer)

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.