Risk Factors Comparison 2023-08-04 to 2022-08-05 Form: 10-K

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Risks Related to our Business and Industry Our quarterly operating results have fluctuated in the past and may continue to fluctuate due to a variety of factors, many of which are outside of our control. Our number of new clients typically increases more during our third fiscal quarter ending March 31 than during the rest of our fiscal year, primarily because many new clients prefer to start using our human capital management, or HCM, and payroll solutions at the beginning of a calendar year. Client funds and year- end activities are also traditionally higher during our third fiscal quarter. As a result, our total revenue and expenses have historically grown disproportionately during our third fiscal quarter as compared to other quarters. Due to this seasonality in our business, quarter- to- quarter comparisons of our operations are not necessarily meaningful and such comparisons should not be relied upon as indications of future performance. Additionally, fluctuation in quarterly results may negatively impact the price of our common stock. In addition to other risk factors listed within this " Risk Factors " section of this Annual Report on Form 10- K, some other important factors that may cause fluctuations in our quarterly operating results include the following: • The extent to which our products achieve or maintain market acceptance; • Our ability to introduce new products and enhancements and updates to our existing products on a timely basis; • Competitive pressures and the introduction of enhanced products and services from competitors; • Changes in client budgets and procurement policies; • The amount and timing of our investment in research and development activities and whether such investments are capitalized or expensed as incurred; • The number of our clients' employees; • Timing of recognition of revenues and expenses; • Client renewal rates; • Seasonality in our business; • Technical difficulties with our products or interruptions in our services; • Our ability to hire and retain qualified personnel; • A repeal of or changes to the laws and regulations related to the products and services which we offer; • Changes in accounting principles; • Business disruptions caused by public health issues such as the coronavirus disease (" COVID- 19 ") pandemic; • Macroeconomic factors, including changes in interest rates and inflationary pressures; and • Unforeseen legal expenses, including litigation and settlement costs. In addition, a significant portion of our operating expenses are related to compensation and other items which are relatively fixed in the short- term, and we plan expenditures based in part on our expectations regarding future needs and opportunities. Accordingly, changes in our business or revenue shortfalls could decrease our gross and operating margins and could negatively impact our operating results from period to period. If we do not continue to innovate and deliver high- quality, technologically advanced products and services, we will not remain competitive and our revenue and operating results could suffer. The market for our solutions is characterized by rapid technological advancements, **including but not limited to artificial intelligence (" AI ") and machine learning,** changes in client requirements, frequent new product introductions and enhancements and changing industry standards. The life cycles of our products are difficult to estimate. Rapid technological changes and the introduction of new products and enhancements by new or existing competitors, or development of entirely new technologies to replace existing offerings could limit the demand for our existing or future solutions and undermine our current market position **. New technologies that involve AI or machine learning or that are created using AI or machine learning may emerge that are able to deliver HCM solutions at lower prices, more efficiently or more conveniently than our solutions, which could adversely impact our ability to compete. Additionally, if new technologies used in our products fail to operate as expected, our business may be negatively impacted** . Our success depends in substantial part on our continuing ability to provide products and services that organizations will find superior to our competitors' offerings and will continue to use. We intend to continue to invest significant resources in research and development to enhance our existing products and services and introduce new high- quality products that clients will want. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis or to effectively bring new products to market, our revenue and operating results may suffer. Failure to manage our growth effectively could increase our expenses, decrease our revenue, and prevent us from implementing our business strategy and sustaining our revenue growth rates. We have ~~and we believe we will continue to experience~~ **experienced** rapid revenue and client base growth **and intend to pursue continued growth as part of our business strategy** . However, the growth in our number of clients puts significant demands on our business, requires increased capital expenditures and increases our operating expenses. To manage this growth effectively, we must attract, train, and retain a significant number of qualified sales, implementation, client service, software development, information technology and management personnel. We also must maintain and enhance our technology infrastructure and our financial and accounting systems and controls. We must also expand and develop our network of third- party service providers, including 401 (k) advisors, benefits administrators, insurance brokers, third- party administrators and HR consultants, which represent a significant source of referrals of potential clients for our products and implementation services. Failure to effectively manage our growth could adversely impact our business and results of operations. We could also suffer operational mistakes, a loss of business opportunities and employee losses. If our management is unable to effectively manage our growth, our expenses might increase more than expected, our revenue could decline or might grow more slowly than expected, and we might be unable to implement our business strategy. The markets in which we participate are highly competitive, and if we do not compete effectively, our operating results could be adversely affected. The market for HCM and payroll solutions is fragmented, highly competitive and rapidly changing. Our competitors vary for each of our solutions and primarily include payroll and HR service and software providers, such as Automatic Data Processing, **Inc., Ceridian HCM Holding** Inc., Paychex, Inc., Paycom Software, Inc., Paycor, Inc., Ultimate Kronos Group and other local and regional providers. Several of our competitors are larger and have greater name recognition, longer operating histories and significantly greater resources than we do. Many of these competitors are able to devote greater resources to the development, promotion and sale of their products and services. Furthermore, our current or potential competitors may be acquired by third parties with greater available resources and the ability to initiate or withstand substantial price competition, which may include price concessions, delayed payment terms, or other terms and conditions that are more enticing to potential clients. As a result, our competitors may be able to develop products and services better received by our markets or may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, regulations, or client requirements. In addition, current and potential competitors have established, and might in the future establish, partner or form other cooperative relationships with vendors of complementary products, technologies or services to enable them to offer new products and services, to compete more effectively or to increase the availability of their products in the marketplace. New competitors or relationships might emerge that have greater market share, a larger client base, more widely adopted proprietary technologies, greater marketing expertise, greater financial resources, and larger sales forces than we have, which could put us at a competitive disadvantage. In light of these ~~advantages~~ **factors** , current or potential clients might accept competitive offerings in lieu of purchasing our offerings. We expect competition to continue for these reasons, and such competition could negatively impact our sales, profitability or market share. If we fail to manage our technical operations infrastructure, including operation of our data centers, our existing clients may experience service outages and our new clients may experience delays in the deployment of our modules. We have experienced significant growth in the number of users, transactions and data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our data centers and other operations infrastructure to meet the needs of our clients. We also seek to maintain excess capacity to support new client deployments and the expansion of existing client deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters and the evolution of our modules. We **have in the past and** may **in the future** experience website disruptions, outages and other performance problems. These problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, security attacks, fraud, spikes in client usage and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. If we do not accurately predict our infrastructure requirements, our existing clients may experience service outages that may subject us to financial penalties, financial liabilities and client losses **and** ~~. If our operations infrastructure fails to keep pace with increased sales, clients may experience delays as we seek to obtain additional capacity, which could~~ adversely affect our reputation ~~and our revenues~~ . In addition, our ability to deliver our cloud- based modules depends on the development and maintenance of Internet infrastructure by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, bandwidth capacity, and security. We may experience future interruptions and delays in services and availability from time to time. Any interruption may affect the availability, accuracy, or timeliness in our services and could damage our reputation, cause our clients to terminate their use of our software, require us to indemnify our clients against certain losses due to our own errors and prevent us from gaining additional business from current or future clients. In the event of a catastrophic event with respect to one or more of our systems, we may experience an extended period of system unavailability, which could negatively impact our relationship with clients. To operate without interruption, both we and our clients must guard against: • Damage from fire, power loss, natural disasters, pandemics and other force majeure events outside our control; • Communications failures; • Software and hardware errors, failures and crashes; • Security breaches, computer viruses, hacking, worms, malware, ransomware, denial- of- service attacks and similar disruptive problems; and • Other potential interruptions. We use multiple cloud hosting and third- party data center providers to host our solutions, including data centers in Franklin Park, Illinois and Kenosha, Wisconsin (for backup and disaster recovery). We also may decide to employ additional offsite data centers in the future to accommodate growth. Problems faced by our data center locations (such as a hardware or other supply chain disruption), with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their clients, including us, could adversely affect the availability and processing of our solutions and related services and the experience of our clients. ~~If~~ **In addition,** our data ~~centers~~ - **center** ~~are~~ **providers may be** unable to keep up with our growing needs for capacity, **may implement** ~~this could have an adverse effect on our business and cause us to incur additional expense. Any~~ changes in service levels ~~at our third- party data center or any errors~~ , ~~defects, disruptions or other performance problems with our modules could adversely affect our reputation and~~ may ~~damage our clients' stored files or result in lengthy interruptions in our services. Interruptions in our services might reduce our revenues, subject us to potential liability or other expenses or adversely affect our renewal rates. In addition, while we own, control and have access to our servers and all of the components of our network that are located in our backup data centers, we do~~ not ~~control the operation of these facilities. The operators of our third- party data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to~~ renew these agreements on commercially reasonable terms, or **may be** ~~if the data center operators are~~ acquired ~~, we~~ **. We** may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur costs and experience service interruption in doing so **. Interruptions in our services might reduce our revenues, subject us to potential liability or other expenses and adversely affect our reputation** . We typically pay client employees and may pay taxing authorities amounts due for a payroll period before a client' s electronic funds transfers are finally settled to our account. If client payments are rejected by banking institutions or otherwise fail to clear into our accounts, we may require additional sources of short- term liquidity and our operating results could be adversely affected. Our payroll processing business involves the movement of significant funds from the account of a client to employees and relevant taxing authorities. Though we debit a client' s account prior to any disbursement on its behalf, due to Automated Clearing House, or ACH, banking regulations, funds previously credited could be reversed under certain circumstances and timeframes after our payment of amounts due to employees and taxing and other regulatory authorities. There is therefore a risk that the employer' s funds will be insufficient to cover the amounts we have already paid on its behalf. While such shortage and accompanying financial exposure has only occurred in very limited instances in the past, should clients default on their payment obligations in the future, we might be required to advance funds to cover such obligations. Depending on the magnitude of such an event, we may be required to seek additional sources of short- term liquidity, which may not be available on reasonable terms, if at all, and our operating results and our liquidity could be adversely affected and our banking relationships could be harmed. Our business could be negatively impacted by disruptions in the operations of third- party **service** providers **. We depend on relationships with certain third- party service providers to operate our business** . We rely on third- party couriers such as the United Parcel Service, or UPS, to ship printed checks to our clients, and any disruptions in their operations that impact their ability to successfully perform their tasks may negatively impact our business. We also engage international business partners to perform certain services in countries where we currently do not have operations in and as a result may subjects us to regulatory, economic and political risks that are different from those in the United States. We ~~also~~ currently have agreements with ~~eleven~~ **various** major U. S. banks to execute ACH and wire transfers to support our client payroll, benefit and tax services. If one or more of the banks fails to process ACH transfers on a timely basis, or at all, then our relationship with our clients could be harmed and we could be subject to claims by a client with respect to the failed transfers. In addition, these banks have no obligation to renew their agreements with us on commercially reasonable terms, if at all. If a material number of these banks terminate their relationships with us or restrict the dollar amounts of funds that they will process on behalf of our clients, their doing so may impede our ability to process funds and could have an adverse impact on our business. We **have contingency plans in place in case of any failures of banks to process transfers that may impact our operations. However, a failure of one of our banking partners or a systemic shutdown of the banking industry could result in the loss of client funds or prevent us from accessing and processing funds on our clients' behalf, which could have an adverse impact on our business and liquidity. In addition, we utilize certain third- party software in some of our products. Although we believe that there are alternatives for the functionality provided by the third party software, any significant interruption in the availability of such third- party software, or defects and errors in the third- party software, could have an adverse impact on our business unless and until we can replace the functionality provided by these products at a similar cost. We** depend on our senior management team and other key employees, and the loss of these persons or an inability to attract and retain highly skilled employees, including product development, sales, implementation, client service and other technical persons, could adversely affect our business. Our success depends largely upon the continued services of our key executive officers. We also rely on our leadership team in the areas of product development, sales **, implementation** , client service, and general and administrative functions. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. While we have employment agreements with our executive officers, these employment agreements do not require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers or key employees could have an adverse effect on our business. We believe that to grow our business and be successful, we must continue to develop products that are technologically advanced, are highly integrable with third- party services, provide significant mobility capabilities and have pleasing and intuitive user experiences. To do so, we must attract and retain highly qualified personnel, particularly employees with high levels of experience in designing and developing software. We must also identify, recruit and train qualified sales, client service and implementation personnel in the use of our software. The amount of time it takes for our sales representatives, client service and implementation personnel to be fully trained and to become productive varies widely. Competition for skilled employees across the United States and globally is intense. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed. We follow a practice of hiring the best available candidates wherever located, but as we grow our business, the productivity of our product development and direct sales force may be adversely affected. In addition, if we hire employees from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources. Our software might not operate properly, which could damage our reputation, give rise to claims against us, or divert application of our resources from other purposes, any of which could harm our business and operating results. Our HCM and payroll software is complex and may contain or develop undetected defects or errors, particularly when first introduced or as new versions are released. Despite extensive testing, from time to time, we have discovered defects or errors in our products. In addition, because changes in employer and legal requirements and practices relating to benefits, filing of tax returns and other regulatory reports are frequent, we may discover defects and errors in our software and service processes in the normal course of business compared against these requirements and practices. Defects and errors could also cause the information that we collect to be incomplete or contain inaccuracies that our clients, their employees and taxing and other regulatory authorities regard as significant. Defects and errors and any failure by us to identify and address them could result in delays in product introductions and updates, loss of revenue or market share, liability to clients or others, failure to achieve market acceptance or expansion, diversion of development and other resources, injury to our reputation, and increased service and maintenance costs. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability might be substantial and could adversely affect our operating results. Our clients might assert claims against us in the future alleging that they suffered damages due to a defect, error, or other failure of our product or service processes. A product liability claim and errors or omissions claim could subject us to significant legal defense costs and adverse publicity regardless of the merits or eventual outcome of such a claim. Our agreements with our clients typically contain provisions intended to limit our exposure to such claims, but such provisions may not be effective in limiting our exposure. Contractual limitations we use may not be enforceable and may not provide us with adequate protection against product liability claims in certain jurisdictions. A successful claim for product or service liability brought against us could result in substantial cost to us and divert management' s attention from our operations. We also maintain insurance, but our insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover all claims made against us and defending a suit, regardless of its merit, could be costly and divert management' s attention ~~. If third- party software used in our products is not adequately maintained or updated, our business could be materially adversely affected. Some of our products utilize certain third- party software. Although we believe that there are alternatives for these products, any significant interruption in the availability of such third- party software could have an adverse impact on our business unless and until we can replace the functionality provided by these products at a similar cost. Additionally, we rely, to a certain extent, upon such third parties' abilities to enhance their current products, to develop new products on a timely and cost- effective basis and to respond to emerging industry standards and other technological changes. We may be unable to replace the functionality provided by the third- party software currently offered in conjunction with our products in the event that such software becomes obsolete or incompatible with future versions of our products or is otherwise not adequately maintained or updated~~. We may acquire other companies or technologies, which could divert our management' s attention, result in additional dilution to our stockholders and otherwise disrupt our operations and adversely affect our operating results. We have acquired and may in the future seek to acquire or invest in other businesses or technologies. The pursuit of potential acquisitions or investments may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. We may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. Factors that may negatively impact our operating results, business and financial position, without limitation include the following: • Inability to integrate or benefit from acquired technologies, operations, or services in a profitable manner; • Unanticipated costs or liabilities associated with the acquisition; • Difficulty converting the clients of the acquired business onto our modules and contract terms, including disparities in the revenues, licensing, support or professional services model of the acquired company; • Diversion of management' s attention from other business concerns; • Adverse effects to our existing business relationships with business partners and clients as a result of the acquisition; • The potential loss of key employees; • Use of resources that are needed in other parts of our business; • Use of substantial portions of our available cash to consummate the acquisition; and • Dilutive issuances of equity securities or the incurrence of debt. In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations. Risks Related to Cybersecurity and Intellectual Property Rights If our security measures are breached or unauthorized access to client data or funds is otherwise obtained, our solutions may be perceived as not being secure, clients may reduce the use of or stop using our solutions and we may incur significant liabilities. Our solutions involve the storage and transmission of our clients' and their employees' proprietary and confidential information. This information includes bank account numbers, tax return information, social security numbers, benefit information, retirement account information, payroll information, system passwords, and in the case of our benefit administration solution, BeneFLEX, health information protected by the Health Insurance Portability and Accountability Act of 1996, as amended, or the Health Insurance Portability and Accountability Act of 1996 (" HIPAA "). In addition, we collect and maintain personal information on our own employees in the ordinary course of our business. Finally, our business involves the storage and transmission of funds from the accounts of our clients to their employees, taxing and regulatory authorities and others. As a result, unauthorized access or security breaches of our systems, the systems of our clients or use of confidential information we obtain during the normal course of our business could result in the unauthorized disclosure of confidential information, identity and financial theft, litigation, indemnity obligations and other significant liabilities. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are employed, we may be unable to anticipate these techniques or to implement adequate preventative measures in advance. As cyber threats continue to evolve, we are focused on ensuring that our operating environments safeguard and protect personal and business information. We may be required to invest significant additional resources to comply with evolving cybersecurity regulations and to modify and enhance our information security and controls, and to investigate and remediate any security vulnerabilities. We have security measures and controls in place to protect confidential information, prevent data loss, theft and other security breaches, including penetration tests of our systems by independent third parties. However, if our security measures are breached, our business could be substantially harmed, and we could incur significant liabilities. The costs of investigating, mitigating, and reporting such a breach to affected individuals (if required) can be substantial. In addition, if a high- profile security breach occurs with respect to an industry peer, our clients and potential clients may generally lose trust in the security of HCM and payroll modules. Any such breach or unauthorized access could negatively affect our ability to attract new clients, cause existing clients to terminate their agreements with us, result in reputational damage and subject us to lawsuits, regulatory fines or other actions or liabilities which could materially and adversely affect our business and operating results. There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim related to a breach or unauthorized access. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co- insurance requirements, could have a material adverse effect on our business, financial condition and results of operations. Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand. Our success is dependent, in part, upon protecting our proprietary technology. Our proprietary technologies are not covered by any patent or patent application. Instead, we rely on a combination of copyrights, trademarks, service marks, trade secret laws, and contractual restrictions to establish and protect our proprietary rights in our products and services. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our products may be unenforceable under the laws of certain jurisdictions and foreign countries. We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to and distribution of our products and proprietary information. The confidentiality agreements on which we rely to protect certain technologies may be breached and may not be adequate to protect our proprietary technologies. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solutions. In order to protect our intellectual property rights, we may be required to spend significant resources, including cybersecurity resources, to monitor and protect these rights. Our intellectual property could be wrongfully acquired as a result of a cyberattack or other wrongful conduct by employees or third parties. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming, and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management' s attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our solutions, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our solutions, or damage our reputation. In addition, we may be required to license additional technology from third parties to develop and market new solutions, and we cannot assure you that we could license that technology on commercially reasonable terms, or at all. Although we do not expect that our inability to license this technology in the future would have a material adverse effect on our business or operating results, our inability to license this technology could adversely affect our ability to compete. We may be sued by third parties for alleged infringement of their proprietary rights. There is considerable patent and other intellectual property development activity in our industry. Our success depends, in part, upon our not infringing upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry. From time to time, third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. In the future, others may claim that our modules and underlying technology infringe or violate their intellectual property rights. However, we may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. In connection with any such claim or litigation, we may also be obligated to indemnify our clients or business partners or pay substantial settlement costs, including royalty payments, and to obtain licenses, modify applications, or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time- consuming and divert the attention of our management and key personnel from our business operations. The use of open source software in our products and solutions may expose us to additional risks and harm our intellectual property rights. Some of our products and solutions use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user' s software to disclose publicly part or all of the source code to the user' s software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost. The terms of many open source licenses to which we are subject have not been interpreted by U. S. or foreign courts. Accordingly, there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our solutions. In that event, we could be required to seek licenses from third parties in order to continue offering our products or solutions, to re- develop our products or solutions, to discontinue sales of our products or solutions, or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs. While we monitor the use of all open source software in our products, solutions, processes and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product or solution when we do not wish to do so, it is possible that such use may have inadvertently occurred in deploying our proprietary solutions. In addition, if a third- party software provider has incorporated certain types of open source software into software we license from such third party for our products and solutions without our knowledge, we could, under certain circumstances, be required to disclose the source code to our products and solutions. This could harm our intellectual property position and our business, results of operations and financial condition. Risks Related to Legal and Regulatory Matters Changes in regulatory laws or requirements applicable to our software and services could impose increased costs on us, delay or prevent our introduction of new products and services and impair the function or value of our existing products and services. Our products and services may become subject to increasing and / or changing regulatory requirements, including changes in tax, benefit **, wage and hour, employment laws** and other international and domestic laws, and as these requirements proliferate, we may be required to change or adapt our products and services to comply. Changing regulatory requirements might reduce or eliminate the need for some of our products and services, block us from developing new products and services or have an adverse effect on the functionality and acceptance of our solution. This might in turn impose additional costs upon us to comply, modify or further develop our products and services. It might also make introduction of new products and services more costly or more time- consuming than we currently anticipate or prevent introduction of such new products and services. For example, the adoption of new money transmitter or money services business statutes in jurisdictions or changes in regulators' interpretation of existing state and federal money transmitter or money services business statutes or regulations, could subject us to registration or licensing or limit business activities until we are appropriately licensed. These occurrences could also impact how we conduct some aspects of our business or invest client funds, which could adversely impact interest income from investing client funds. Should any state or federal regulators determine that we have operated as an unlicensed money services business or money transmitter, we could be subject to civil and criminal fines, penalties, costs, legal fees, reputational damage or other negative consequences. Any of these regulatory implementations or changes could have an adverse effect on our business, operating results or financial condition **. Some of our products incorporate new technologies such as artificial intelligence and machine learning. The ability to provide products powered by new and evolving technologies must be approached in a principled manner to navigate the complexities associated with the current or future regulatory requirements as well as social and ethical considerations. Additionally, failure by others in our industry, or actions taken by our clients, employees, or other end users (including misuse of these technologies) could negatively affect the adoption of our solutions and restrict our ability to continue to leverage novel technologies in innovative ways and subject us to reputational harm, regulatory action, or legal liability, which may harm our financial condition and operating results** . Failure to comply with privacy laws and regulations may have a material adverse effect on reputation, financial condition, and / or operations. Our processing of personal information for our employees and on behalf of our clients is subject to federal, state and international privacy laws. These laws, which are not uniform, generally regulate the collection, storage, transfer, and other processing of personal information; require notice to individuals of privacy practices before or at the point of collection; give individuals certain rights with respect to their personal information, including access, deletion and correction; regulate the use or disclosure of personal information for secondary purposes such as marketing; and require notification to affected individuals, clients, and / or regulators in the event of a data breach. HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and its implementing regulations, applies to our benefit administration solution, BeneFLEX. The European Union General Data Protection Regulation (" GDPR"), and state consumer privacy laws like the California Consumer Protection Act (" CCPA"), **as amended** ~~which will be replaced~~ by the California Privacy Rights Act of 2020 (" CPRA"), are among the most comprehensive privacy laws and apply to multiple areas of our business. **Other** ~~Countries~~ **countries** and U. S. states are increasingly adopting similarly comprehensive laws that impose new data privacy protection requirements and restrictions on covered organizations. Notably, these laws can impose significant penalties and fines on organizations for non- compliance, such as 4 % of worldwide revenue for the preceding year under the GDPR. ~~Colorado and Virginia also recently passed their own consumer data privacy statutes modeled on the CCPA, which are scheduled to go into effect in 2023.~~ The worldwide regulatory focus on privacy has intensified during the past several years, in part triggered by the GDPR, and has led to the rapid evolution of legal requirements related to the handling of personal information in ways that require our business to adapt to support our clients' compliance. As this focus continues, the potential risks related to handling personal information by our business will only increase. To add to the complexity of the existing privacy landscape, many areas of existing privacy laws are subject to interpretation, which imposes an added risk that adverse interpretations of these laws by advocacy groups and governments in countries where our clients operate could impose significant obligations on our business or prevent us from offering certain services in jurisdictions where we currently operate ~~. Some of our modern products, such as Data Insights, use artificial intelligence and machine learning to help our clients manage their businesses and are important components of the value that our solutions provide to our clients. The ability to provide data- driven insights, however, may be constrained by current or future regulatory requirements or ethical considerations that could restrict or impose burdensome and costly requirements on our ability to continue to leverage data in innovative ways~~ . Enforcement actions and investigations by regulatory authorities related to security incidents and privacy violations continue to increase. Future enforcement actions or investigations could impact us through increased costs or restrictions on our businesses. A finding of noncompliance could result in significant regulatory penalties, legal liability and burdensome governmental oversight. Additionally, security events and concerns about privacy abuses by other companies are changing consumer and social expectations for enhanced privacy. As a result, a perception of noncompliance could damage our reputation with our current and potential clients, employees and stockholders. Adverse tax laws or regulations could be enacted, or existing laws could be applied to us or our clients, which could increase the costs of our services and adversely impact our business. The application of federal, state, and local tax laws to services provided electronically often involve complex issues and significant judgment. New or changes to existing income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, possibly with retroactive effect, and could be applied solely or disproportionately to services provided over the Internet. These enactments could adversely affect our business, results of operations and financial condition due to the inherent cost increase. Moreover, each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that change over time. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, we may voluntarily engage state tax authorities to determine how to comply with that state' s rules and regulations. We cannot, however, assure you that we will not be subject to sales and use taxes or related penalties for past sales in states where we currently believe no such taxes are required. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our services, we might be liable for past taxes and the associated interest and penalty charges, in addition to taxes going forward, which will adversely affect our business, sales activity, results of operations and financial condition. Any future litigation against us could be costly and time- consuming to defend. We may become subject, from time to time, to legal proceedings and claims that arise in the ordinary course of business such as claims brought by our clients in connection with commercial disputes, employment claims made by our current or former employees, or lawsuits related to breaches of personal information. Litigation might result in substantial costs and may divert management' s attention and resources, which might seriously harm our business, overall financial condition, and operating results. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby harming our operating results and leading analysts or potential investors to lower their expectations of our performance, which could reduce the trading price of our stock. Risks Related to Financial Matters Certain of our debt agreements contain covenants that may constrain the operation of our business, and our failure to comply with these covenants could have a material adverse effect on our financial condition. The ~~five- year~~ revolving credit agreement that we **amended** ~~entered into~~ in ~~July 2019~~ **August 2022** contains restrictive covenants including restrictions regarding the incurrence of liens and indebtedness, substantial changes in the general nature of our business and our subsidiaries (taken as a whole), certain merger transactions, certain sales of assets and other matters, all subject to certain exceptions. Failure to comply with these covenants could have a negative impact on our business and financial condition. Corporate investments and client funds that we hold are subject to market, interest rate, credit and liquidity risks. The loss of these funds could have an adverse impact on our business. We invest portions of excess cash and cash equivalents and funds held for our clients in liquid, investment- grade marketable securities such as corporate bonds, commercial paper, asset- backed securities, U. S. treasury securities, money market securities, and other cash equivalents. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to liquidity and credit risks. Nevertheless, our corporate investments and client fund assets are subject to general market, interest rate, credit, and liquidity risks. These risks may be exacerbated, individually or in unison, during periods of unusual financial market volatility. Any loss of or inability to access our corporate investments or client funds could have adverse impacts on our business, results of operations, financial condition and liquidity. In addition, funds held for clients are deposited in consolidated accounts on behalf of our clients, and as a result, the aggregate amounts in the accounts exceed the applicable federal deposit insurance limits. We believe that since such funds are deposited in trust on behalf of our clients, the Federal Deposit Insurance Corporation, or the FDIC, would treat those funds as if they had been deposited by each of the clients themselves and insure each client' s funds up to the applicable deposit insurance limits. If the FDIC were to take the position that it is not obligated to provide deposit insurance for our clients' funds or if the reimbursement of these funds were delayed, our business and our clients could be materially harmed. Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States. Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, or FASB, the Securities and Exchange Commission, or SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, including increased volatility, and could affect the reporting of transactions completed before the announcement of a change. Risks Related to Ownership of Our Common Stock Insiders have substantial control over us, which may limit our stockholders' ability to influence corporate matters and delay or prevent a third party from acquiring control over us. As of July ~~29~~ **28** , ~~2022~~ **2023** , our directors, executive officers and holders of more than 5 % of our common stock, together with their respective affiliates, beneficially owned, in the aggregate, approximately ~~26~~ **22** . 7 % of our outstanding common stock. This significant concentration of ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. In addition, these stockholders will be able to exercise influence over all matters requiring stockholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit the ability of our other stockholders to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other stockholders. Our stock price may be subject to wide fluctuations. The market price of our common stock has experienced, and may continue to experience, wide fluctuations and increased volatility. Factors that may impact our performance and market price include those discussed elsewhere in this " Risk Factors " section of this Annual Report on Form 10- K and others such as: • Our operating performance and the operating performance of similar companies; • Announcements by us or our competitors of acquisitions, business plans or commercial relationships; • Any major change in our board of directors or senior management; • Publication of research reports or news stories about us, our competitors, or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts; • The public' s reaction to our press releases, our other public announcements and our filings with the SEC; • Sales of our common stock by our directors, executive officers and affiliates; • Adverse market reaction to any indebtedness we may incur or securities we may issue in the future; • Short sales, hedging and other derivative transactions in our common stock; • Threatened or actual litigation; • Public health issues such as the COVID- 19 pandemic; and • Other events or factors, including changes in general conditions in the United States and global economies or financial markets (including acts of God, war, incidents of terrorism, inflationary pressures or other destabilizing events and the resulting responses to them). In addition, the stock market in general and the market for software or technology- related companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company' s securities. This litigation, if instituted against us, could result in substantial costs, divert our management' s attention and resources, and harm our business, operating results, and financial condition. We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock. We have not declared or paid dividends on our common stock in the past three fiscal years and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings to fund our growth and other corporate initiatives. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future, and the success of an investment in shares of our common stock will depend upon future appreciation in its value, if any. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders purchased their shares. Future ~~sales~~ **issuances** of shares of our common stock ~~by existing stockholders~~ could depress the market price of our common stock. **Our second amended** ~~As of July 29, 2022, we had an~~ **and** ~~aggregate~~ **restated certificate** of **incorporation authorizes the issuance of up to** ~~55~~ **155** , ~~277~~ **000** , **000** ~~660 outstanding~~ shares of common stock **and 5** ~~. The 17~~ , ~~362~~ **000** , ~~750~~ **000** shares ~~sold in our initial public offering~~ **of preferred stock with such rights** , **preferences, privileges** ~~follow- on offering~~ and ~~secondary offering can be freely sold in the public market without restriction~~ **restrictions as determined by** ~~. The remaining shares can be freely sold in~~ the ~~public market,~~ **board of directors. We may issue all or any portion of the capital stock which has been authorized but not issued** subject ~~in some cases~~ to **applicable** ~~volume and other restrictions under Rule 144 and 701 under the Securities Act of 1933, as amended, and various agreements. In addition, we have registered 22, 053, 893 shares of common stock that we have issued and may issue under our equity plans. These shares can be freely sold in the public market upon issuance, subject in some cases to volume and other restrictions under Rules~~ **rules** ~~144~~ and **regulations** ~~701 under the Securities Act~~ , **which** ~~and various vesting agreements. In addition~~ , **may not require** ~~some of our employees, including our executive officers, have entered into 10b5- 1 trading plans regarding sales of shares of our common stock. These plans provide for sales to occur from time to time. If~~ any **action** ~~of these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our~~ - **or** ~~common stock could decline~~ **approval by our stockholders** . Also, in the future, we may issue additional securities in connection with investments and acquisitions. The amount of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding stock. Due to these factors, ~~sales~~ **issuances** of a substantial number of shares of our common stock ~~in~~ **into** the public market could occur at any time **which** ~~. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares,~~ could ~~reduce~~ **dilute** the ~~market price~~ **ownership proportion** of **current stockholders** ~~our common stock~~ . Anti- takeover provisions in our charter documents and Delaware law could discourage, delay, or prevent a change in control of our company and may affect the trading price of our common stock. We are a Delaware corporation and the anti- takeover provisions of the Delaware General Corporation Law, which apply to us, may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the stockholder becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our **second** amended and restated certificate of incorporation and **second** amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our amended and restated certificate of incorporation and bylaws: • Authorize the issuance of " blank check " convertible preferred stock that could be issued by our board of directors to thwart a takeover attempt ~~; • Establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election; • Require that directors only be removed from office for cause and only upon a supermajority stockholder vote~~ ; • Provide that vacancies on the board of directors, including newly- created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders; • Prevent stockholders from calling special meetings; and • Prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders. Our bylaws provide that the state and federal courts located within the state of Delaware are the sole and exclusive forums for certain legal actions involving the company or our directors, officers and employees. **Our second** ~~On February 2, 2016, we~~ amended ~~our~~ **and restated** bylaws ~~to~~ designate the state and federal courts located within the state of Delaware as the sole and exclusive forums for claims arising derivatively, pursuant to the Delaware General Corporation Law or governed by the internal affairs doctrine. The choice of forum provision is expressly authorized by the Delaware General Corporation Law, which was amended so that companies would not have to litigate internal claims in more than one jurisdiction. If a court were to find the exclusive forum provision contained in our bylaws to be inapplicable or unenforceable, we may incur additional costs associated with resolving such extra- forum claims, which could adversely affect our business and financial condition. This bylaws provision, therefore, may dissuade or discourage claimants from initiating lawsuits or claims against us or our directors and officers in forums other than Delaware. General Risk Factors ~~Our~~ **Adverse economic and market conditions could affect our** business, results of operations and financial condition ~~have been, and will continue to be, adversely impacted by the uncertainties and consequences stemming from the COVID- 19 pandemic~~ . Our business depends on the overall demand for HCM and payroll software and services, and on the economic health of our current and prospective clients. **As** ~~The impacts of the COVID- 19 pandemic on our business, clients, partners, employees, markets and financial results and condition, are evolving and dependent on numerous unpredictable factors outside of our control, including: • The duration and severity of the pandemic as a public health matter and its impact on governments, businesses, society, our clients, our partners and our business; • The measures being taken by governments, businesses and society in response to the pandemic • The scope and effectiveness of fiscal and monetary stimulus programs and other legislative and regulatory measures being implemented by federal, state and local governments; • The increase in business failures among our clients and other businesses; • The pace and extent to which our clients and other businesses recover and add employees and other compensated individuals; and • The willingness of current and prospective clients to invest in our products and services. Any of these factors may impact our business unfavorably. There can be no assurance that the economic recovery will continue or offset the uncertainty and instability resulting from the COVID- 19 pandemic. Even as the COVID- 19 pandemic subsides, we may continue to experience adverse impacts to our business as~~ a result ~~of its global~~ **, we are subject to risks arising from adverse changes in** economic ~~impact~~ **and market conditions such as lower employment levels** , **increasing interest rates** ~~including any recession, economic downturn~~ , inflation, **volatility in capital markets, and instability of the banking environment, among other factors. During a slowdown in the economy, clients may reduce their number of employees and delay or reduce their**

spending on payroll and other HCM solutions or renegotiate their contracts with us. This could result in reductions in ~~or~~ **our revenues and sales of our products, longer sales cycles,** increased ~~unemployment~~ **price competition and clients' purchasing fewer solutions** ~~that~~ **than** ~~has occurred or may occur in the~~ **they** ~~future~~ **have in the past. Any of these events would likely harm our business, results of operations, financial condition and cash flows from operations** . If we are unable to maintain effective internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected. As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes- Oxley Act of 2002, or the Sarbanes- Oxley Act, requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on the internal controls over financial reporting. In addition, the Sarbanes- Oxley Act requires that our management report on the internal controls over financial reporting be attested to by our independent registered public accounting firm. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. Compliance with these public company requirements has made some activities more time- consuming, costly and complicated. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.