Paylocity Holding Corp
Form S-1/A
February 14, 2014

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As filed with the Securities and Exchange Commission on February 14, 2014.

Registration No. 333-193661

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

AMENDMENT NO. 1
to

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Paylocity Holding Corporation

(Exact name of Registrant as Specified in Its Charter)

Delaware	**7372**	**46-4066644**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

3850 N. Wilke Road
Arlington Heights, Illinois 60004
(847) 463-3200
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Steven R. Beauchamp
President and Chief Executive Officer
3850 N. Wilke Road
Arlington Heights, Illinois 60004
(847) 463-3200

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

John J. Gilluly III, P.C. **DLA Piper LLP (US)** **401 Congress Avenue, Suite 2500** **Austin, Texas 78701** **(512) 457-7000**	**Christopher J. Austin** **Goodwin Procter LLP** **The New York Times Building** **620 Eighth Avenue** **New York, NY 10018** **(212) 813-8800**

Approximate date of commencement of proposed sale to the public:
As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý (do not check if a smaller reporting company)	Smaller reporting company o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell securities, and it is not soliciting an offer to buy these securities, in any state or jurisdiction where the offer or sale is not permitted.

Preliminary prospectus, subject to completion. Dated February 14, 2014

Prospectus

Shares

Paylocity Holding Corporation

Common Stock

This is the initial public offering of our common stock.

We are selling shares of common stock. The selling stockholders identified in this prospectus are selling an additional shares of common stock. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders. The estimated initial public offering price is between $ and $ per share. Currently no public market exists for the shares.

We have applied to list our common stock on the NASDAQ Global Select Market under the symbol "PCTY."

We are an "emerging growth company" under the federal securities laws and are eligible for reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 11.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discounts and commissions(1)	$	$
Proceeds to us, before expenses	$	$
Proceeds to the selling stockholders, before expenses	$	$

(1) See "Underwriting" for a description of the compensation payable to the underwriters.

The underwriters may also purchase up to an additional shares of common stock from us and the selling stockholders, at the initial public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus.

The underwriters expect to deliver the shares of common stock on or about , 2014.

Deutsche Bank Securities **BofA Merrill Lynch** **William Blair**

JMP Securities **Raymond James** **Needham & Company**

, 2014.

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We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared and filed with the Securities and Exchange Commission. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of the date on the front cover of this prospectus, or other earlier date stated in this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Until (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. You should carefully read the entire prospectus, including the financial statements and related notes included in this prospectus and the section entitled "Risk Factors," before deciding whether to invest in our common stock. Unless otherwise indicated or the context otherwise requires, references in this prospectus to "Paylocity," "the Company," "our company," "we," "us," and "our" refer to Paylocity Holding Corporation, a Delaware corporation, and, where appropriate, its wholly-owned subsidiary. References to any year herein refer to the twelve months ended June 30 of the year indicated unless otherwise specified.

Paylocity Holding Corporation

Overview

We are a cloud-based provider of payroll and human capital management, or HCM, software solutions for medium-sized organizations, which we define as those having between 20 and 1,000 employees. Our comprehensive and easy-to-use solutions enable our clients to manage their workforces more effectively. As of June 30, 2013, we served approximately 6,850 clients across the U.S., which on average had over 100 employees. Our solutions help drive strategic human capital decision-making and improve employee engagement by enhancing the human resource, payroll and finance capabilities of our clients.

Our multi-tenant software platform is highly configurable and includes a unified suite of payroll and HCM applications, such as time and labor tracking, benefits and talent management. Our solutions have been organically developed from our core payroll solution, which we believe is the most critical system of record for medium-sized organizations and an essential gateway to other HCM functionality. Our payroll and HCM applications use a unified database and provide robust on-demand reporting and analytics. Our platform provides intuitive self-service functionality for employees and managers combined with seamless integration across all our solutions. We supplement our comprehensive software platform with an integrated implementation and client service organization, which is designed to meet the needs of medium-sized organizations.

We market and sell our products primarily through our direct sales force. We generate sales leads through a variety of focused marketing initiatives and by referrals from our extensive referral network of 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants. We derive revenue from a client based on the solutions purchased by the client, the number of client employees and the amount, type and timing of services provided in respect of those client employees.

We have experienced significant growth in recent years. Our total revenues increased from $39.5 million in fiscal 2011 to $55.1 million in fiscal 2012, representing a 39% year-over-year increase, and to $77.3 million in fiscal 2013, representing a 40% year-over-year increase. Our recurring revenues increased from $37.5 million in fiscal 2011 to $52.5 million in fiscal 2012, representing a 40% year-over-year increase, and to $72.8 million in fiscal 2013, representing a 39% year-over-year increase. Our annual revenue retention rate was greater than 92% in each of fiscal years 2011, 2012 and 2013. Although we do not have long-term contracts with our clients and our agreements with clients are generally terminable on 60 days or less notice, our recurring revenue model and our high annual revenue retention rates provide significant visibility into our future operating results. As of June 30, 2013, we had approximately 6,850 clients. For more information about our key operating metrics, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Metrics."

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We have invested, and intend to continue to invest, in growing our business by expanding our sales and marketing activities, increasing research and development to expand and improve our product offerings, and scaling our technical infrastructure and operations. We incurred net losses of approximately $130,000 in fiscal 2011 and had net income of approximately $1.7 million and $617,000 in fiscal 2012 and 2013, respectively.

Industry Background

Effective management of human capital is a core function in all organizations and requires a significant commitment of resources. Organizations are faced with complex and ever-changing requirements, including diverse federal, state and local regulations across multiple jurisdictions. In addition, the workplace operating environment is rapidly changing as employees become increasingly mobile, work remotely and expect a user experience similar to that of consumer-oriented Internet applications. Medium-sized organizations operating without the infrastructure, expertise or personnel of larger enterprises are uniquely pressured in this complex and dynamic environment.

We believe that existing payroll and HCM solutions have limitations that cause them to underserve the unique needs of medium-sized organizations. Traditional payroll service providers are primarily focused on delivery of a variety of payroll processing services, insurance products and HR business process outsourcing solutions. Many of these solutions offer limited capabilities and lack a unified and configurable payroll and HCM suite. Enterprise-focused payroll and HCM software vendors offer solutions that are designed for the complex needs and structures of large enterprises. As a result, their solutions can be overly complex, expensive and time-consuming to implement, operate and maintain.

The market opportunity is driven by the importance of payroll and HCM solutions to the successful management of organizations. According to market analyses published by International Data Corporation, or IDC, titled *Worldwide and U.S. Human Capital Management Applications 2013-2017 Forecast: The Cloud Spurs Continued Growth* (May 2013) and *U.S. Payroll Outsourcing Services 2013-2017 Forecast and Analysis* (October 2013), the U.S. market for HCM applications and payroll outsourcing services is estimated to be $22.5 billion in 2014. To estimate our addressable market, we focus our analysis on the number of U.S. medium-sized organizations and the number of their employees. According to the U.S. Census Bureau, there were over 565,000 firms with 20 to 999 employees in the U.S. in 2010, employing over 40 million persons. We estimate that if clients were to buy our entire suite of existing solutions at list prices, they would spend approximately $200 per employee annually. Based on this analysis, we believe our current target addressable market is approximately $8.0 billion. Although our existing clients do not typically buy our entire suite of solutions, we plan to sell a broader selection of solutions to our existing clients by expanding their use of our solutions.

Our Solution

Our solution provides the following key benefits to our clients:

- *Comprehensive Platform Optimized for Medium-Sized Organizations.* Our solutions empower finance and HR professionals in medium-sized organizations to drive strategic human capital decisions by providing enterprise-grade payroll and HCM applications, including robust reporting and analytics. Our unified platform fully automates payroll and HCM processes, enabling our clients to focus on core business activities.

- *Modern, Intuitive User Experience.* Our intuitive, easy-to-use interface is based on current technology and automatically adapts to users' devices, including mobile platforms. Our platform's self-service functionality and performance management applications provide employees with an engaging experience.

Flexible and Configurable Platform. We design our solutions to be flexible and configurable, allowing our clients to match their use of our software with their specific business processes and workflows. Our platform has been organically developed from a common code base, data structure and user interface, providing a consistent user experience with powerful features that are easily adaptable to our clients' needs.

Highly-Attractive SaaS Solution for Medium-Sized Organizations. Our solutions are cloud-based and offered on a subscription basis, making them easier and more affordable to implement, operate and update.

Seamless Integration with Extensive Ecosystem of Partners. Our platform offers our clients automated data integration with over 200 related third-party partner systems, such as 401(k), benefits and insurance provider systems. This integration reduces the complexity and risk of error of manual data transfers and saves time for our clients and their employees.

Our Strategy

We intend to strengthen and extend our position as a cloud-based provider of payroll and HCM software solutions to medium-sized organizations. Key elements of our strategy include:

Grow Our Client Base. We believe that our current client base represents only a small portion of the medium-sized organizations that could benefit from our solutions. In order to acquire new clients, we plan to continue to grow our sales organization aggressively across all U.S. geographies.

Expand Our Product Offerings. We plan to increase investment in software development to continue to advance our platform and expand our product offerings. For example, we recently introduced new healthcare reform functionality that provides clients with the ability to forecast and model the impact of healthcare reform on their businesses.

Increase Average Revenue Per Client. Our average revenue per client has consistently increased in each of the last three years as we have broadened our product offerings. We plan to further grow average revenue per client by selling a broader selection of products to new clients and deepening relationships with existing clients by expanding their use of our products.

Extend Technological Leadership. We believe that our organically developed cloud-based multi-tenant software platform, combined with our unified database architecture, enhances the experience and usability of our products. We plan to continue our technology innovation, as we have done with our mobile applications, social features and analytics capabilities.

Further Develop Our Referral Network. We have developed a strong network of referral participants, such as 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants, that recommend our solutions and provide referrals. We plan to increase integration with third-party providers and expand our referral network to grow our client base and lower our client acquisition costs.

Summary Risk Factors

Investing in our common stock involves significant risks and uncertainties. You should carefully consider the risks and uncertainties discussed under the section titled "Risk Factors" elsewhere in this prospectus before making a decision to invest in our common stock. If any of these risks and uncertainties occur, our business, financial condition or results of operations may be materially

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adversely affected. In such case, the trading price of our common stock would likely decline and you may lose all or part of your investment. Below is a summary of some of the principal risks we face:

- We have incurred losses in the past, and we may not be able to achieve or sustain profitability for the foreseeable future.
- Our quarterly operating results have fluctuated in the past and may continue to fluctuate.
- Failure to manage our growth effectively could increase our expenses, decrease our revenue and prevent us from implementing 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.
- If we fail to adequately expand our direct sales force with qualified and productive sales representatives, we may not be able to grow our business effectively.
- Insiders will continue to have substantial control over us after this offering, which may affect the trading price for our common stock and delay or prevent a third party from acquiring control over us.
- The trading price of our common stock is likely to be volatile, and you might not be able to sell your shares at or above the initial public offering price.

Upon completion of this offering, our directors, executive officers and holders of more than 5% of our common stock, together with their respective affiliates, will beneficially own, in the aggregate, approximately % of our outstanding common stock. See "Risk Factors Insiders will continue to have substantial control over us after this offering, which may limit our stockholders' ability to influence corporate matters and delay or prevent a third party from acquiring control over us."

Corporate Information

We were incorporated in July 1997 as an Illinois corporation. In November 2005, we changed our name to Paylocity Corporation. In November 2013, we effected a restructuring whereby Paylocity Corporation became a wholly-owned subsidiary of Paylocity Holding Corporation, a Delaware corporation. Except as otherwise provided herein, this prospectus gives effect to this restructuring. All of our business operations are conducted by Paylocity Corporation.

We are headquartered in Arlington Heights, Illinois. Our principal executive offices are located at 3850 N. Wilke Road, Arlington Heights, Illinois 60004. Our telephone number is (847) 463-3200. Our corporate website address is www.paylocity.com. The information contained in, or that can be accessed through, our website is not part of this prospectus.

Paylocity and "Apple and Orange" and other trademarks or service marks of Paylocity appearing in this prospectus are our property. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of their respective holders.

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THE OFFERING

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Common stock to be outstanding after this offering	shares
Over-allotment option offered by us	shares
Over-allotment option offered by the selling stockholders	shares
Use of proceeds	We intend to use approximately $1.3 million of the net proceeds from this offering to repay outstanding indebtedness under a note. We intend to use the remaining net proceeds from this offering primarily for working capital and other general corporate purposes, including to finance our growth, develop new technologies and fund capital expenditures. We may also seek to expand our existing business through investments in or acquisitions of other businesses or technologies. In addition, if we elect to acquire one of our resellers in the future, we may use a portion of the net proceeds from this offering to effect such purchase. We will not receive any of the proceeds from the sale of shares by the selling stockholders. See the section titled "Use of Proceeds."
Risk Factors	You should read carefully "Risk Factors" in this prospectus for a discussion of factors that you should consider before deciding to invest in our common stock.
Proposed NASDAQ Global Select Market symbol	PCTY

Except as otherwise indicated, all information in this prospectus is based upon 65,882,448 shares of common stock outstanding as of December 31, 2013 after the conversion of all our outstanding shares of preferred stock into shares of common stock and excludes:

- 3,563,587 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2013 having a weighted average exercise price of $2.72 per share;
- shares of common stock issuable upon exercise of stock options granted effective upon the pricing of this offering, at an exercise price equal to the initial public offering price listed on the cover page of this prospectus, under our 2014 Equity Incentive Plan;
- shares of common stock subject to restricted stock unit agreements under our 2014 Equity Incentive Plan;
- 7,052,277 shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2014 Equity Incentive Plan;
- 1,500,000 shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2014 Employee Stock Purchase Plan; and
- 403,800 shares of common stock subject to restricted stock award agreements under our 2008 Equity Incentive Plan.

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Unless otherwise noted, the information in this prospectus assumes:

- The -for- reverse stock split of our common stock effected on , 2014;
- No exercise of outstanding options after December 31, 2013;
- The conversion of all our outstanding shares of preferred stock into shares of common stock prior to or upon the closing of this offering;
- The filing of our amended and restated certificate of incorporation and the effectiveness of our amended and restated bylaws, which will occur immediately prior to the completion of this offering;
- No purchase of shares in this offering by our officers and directors; and
- No exercise by the underwriters of their option to purchase additional shares.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth our summary consolidated financial data as of the dates and for the periods indicated. Our fiscal year ends on June 30. The summary consolidated financial data for each of the three fiscal years ended June 30, 2011, 2012 and 2013 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data for the six months ended December 31, 2012 and 2013 has been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The summary consolidated balance sheet data as of December 31, 2013 has been derived from our unaudited financial statements for such period, included elsewhere in this prospectus. Historical results are not necessarily indicative of future results. You should read this data together with our consolidated financial statements and related notes included elsewhere in this prospectus and the information under the sections titled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended June 30,			Six Months Ended December 31,	
	2011	2012	2013	2012	2013
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Recurring fees	$ 36,443	$ 51,211	$ 71,309	$ 30,639	$ 42,883
Interest income on funds held for clients	1,100	1,263	1,459	625	731
Total recurring revenues	37,543	52,474	72,768	31,264	43,614
Implementation services and other	1,941	2,622	4,526	1,762	2,660
Total revenues	39,484	55,096	77,294	33,026	46,274
Cost of revenues:					
Recurring revenues	16,329	22,054	28,863	13,294	17,074
Implementation services and other	5,416	7,040	10,803	4,762	7,991
Total cost of revenues	21,745	29,094	39,666	18,056	25,065
Gross profit	17,739	26,002	37,628	14,970	21,209
Operating expenses:					
Sales and marketing	9,293	12,828	18,693	7,826	10,612
Research and development	1,565	1,788	6,825	3,054	4,303
General and administrative	6,868	8,618	12,079	5,794	9,139
Total operating expenses	17,726	23,234	37,597	16,674	24,054
Operating income (loss)	13	2,768	31	(1,704)	(2,845)
Other income (expense)	(179)	(196)	(16)	(9)	50
Income (loss) before income taxes	(166)	2,572	15	(1,713)	(2,795)
Income tax (benefit) expense	(36)	884	(602)	(681)	(1,239)
Net income (loss)	$ (130)	$ 1,688	$ 617	$ (1,032)	$ (1,556)
Net income (loss) attributable to common stockholders	$ (774)	$ 998	$ (2,291)	$ (2,486)	$ (3,118)
Net income (loss) per share attributable to common stockholders:					
Basic	$ (0.01)	$ 0.02	$ (0.05)	$ (0.05)	$ (0.06)
Diluted	$ (0.01)	$ 0.02	$ (0.05)	$ (0.05)	$ (0.06)
Weighted average shares used in computing net income (loss) per share attributable to common stockholders:					

Basic	56,308	65,808	47,983	47,983	47,983
Diluted	56,308	66,475	47,983	47,983	47,983

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	Year Ended June 30,			Six Months Ended December 31,	
	2011	2012	2013	2012	2013
	(in thousands, except per share data)				
Other Financial Data:					
Adjusted Gross Profit(1)	$ 19,962	$ 28,729	$ 40,695	$ 16,565	$ 22,438
Adjusted Recurring Gross Profit(1)	$ 23,437	$ 33,147	$ 46,972	$ 19,565	$ 27,769
Adjusted EBITDA(1)	$ 4,028	$ 7,660	$ 6,301	$ 1,400	$ 523

	As of December 31, 2013		
	Actual	Pro Forma(2)	Pro Forma As Adjusted(3)
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 2,829	$ 2,829	$
Working capital(4)	(5,025)	(5,025)	
Funds held for clients	491,763	491,763	
Total assets	515,233	515,233	
Debt, current portion	625	625	
Client fund obligations	491,763	491,763	
Long-term debt, net of current portion	625	625	
Redeemable convertible preferred stock	36,573		
Stockholders' equity (deficit)	(27,799)	8,774	

(1) We use Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA to evaluate our operating results. We prepare Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA to eliminate the impact of items we do not consider indicative of our ongoing operating performance. However, Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA are not measurements of financial performance under generally accepted accounting principles in the United States, or GAAP, and these metrics may not be comparable to similarly-titled measures of other companies.

We define Adjusted Gross Profit as gross profit before amortization of capitalized internal-use software and stock-based compensation expenses, if any. We define Adjusted Recurring Gross Profit as total recurring revenues after cost of recurring revenues and before amortization of capitalized internal-use software and stock-based compensation expenses, if any. We define Adjusted EBITDA as net income (loss) before interest expense (income), income tax expense (benefit), depreciation and amortization and stock-based compensation expenses.

We disclose Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA, which are non-GAAP measures, because we believe these metrics assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. We believe these metrics are commonly used in the financial community to aid in comparisons of similar companies, and we present them to enhance investors' understanding of our operating performance and cash flows.

Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA have limitations as analytical tools. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not reflect our income tax expense or the cash requirement to pay our taxes;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and

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Other companies in our industry may calculate Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA differently than we do, limiting their usefulness as a comparative measure.

Additionally, stock-based compensation will be an element of our overall compensation strategy, although we exclude it from Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA as an expense when evaluating our ongoing operating performance for a particular period.

Because of these limitations, you should not consider Adjusted Gross Profit as an alternative to gross profit, Adjusted Recurring Gross Profit as an alternative to total recurring revenues, or Adjusted EBITDA as an alternative to net income (loss) or cash provided by operating activities, in each case as determined in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results, and we use Adjusted Gross Profit and Adjusted EBITDA only supplementally.

Directly comparable GAAP measures to Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA are gross profit, total recurring revenues and net income (loss), respectively. We reconcile Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA as follows:

	Year Ended June 30,			Six Months Ended December 31,	
	2011	**2012**	**2013**	**2012**	**2013**
			(in thousands)		
Reconciliation from Gross Profit to Adjusted Gross Profit					
Gross profit	$ 17,739	$ 26,002	$ 37,628	$ 14,970	$ 21,209
Amortization of capitalized research and development costs	2,223	2,727	3,067	1,595	1,229
Adjusted Gross Profit	$ 19,962	$ 28,729	$ 40,695	$ 16,565	$ 22,438

	Years Ended June 30,			Six Months Ended December 31	
	2011	**2012**	**2013**	**2012**	**2013**
			(in thousands)		
Reconciliation from Total Recurring Revenues to Adjusted Recurring Gross Profit					
Total recurring revenues	$ 37,543	$ 52,474	$ 72,768	$ 31,264	$ 43,614
Cost of recurring revenues	(16,329)	(22,054)	(28,863)	(13,294)	(17,074)
Recurring gross profit	21,214	30,420	43,905	17,970	26,540
Amortization of capitalized research and development costs	2,223	2,727	3,067	1,595	1,229
Adjusted Recurring Gross Profit	$ 23,437	$ 33,147	$ 46,972	$ 19,565	$ 27,769

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	Year Ended June 30,			Six Months Ended December 31,	
	2011	2012	2013	2012	2013
	(in thousands)				
Reconciliation from Net Income (Loss) to Adjusted EBITDA					
Net income (loss)	$ (130)	$ 1,688	$ 617	$ (1,032)	$ (1,556)
Interest expense	238	261	192	119	45
Income tax (benefit) expense	(36)	884	(602)	(681)	(1,239)
Depreciation and amortization	3,779	4,624	5,571	2,733	2,924
EBITDA	3,851	7,457	5,778	1,139	174
Stock-based compensation expense	177	203	523	261	349
Adjusted EBITDA	$ 4,028	$ 7,660	$ 6,301	$ 1,400	$ 523

(2) The pro forma balance sheet data as of December 31, 2013 reflects the conversion of all of our preferred stock outstanding to common stock in connection with this offering.

(3) The pro forma as adjusted balance sheet data as of December 31, 2013 reflects the pro forma adjustments described in footnote (2) above as adjusted to give effect to receipt by us of the estimated net proceeds from this offering, based on an assumed initial public offering price of $ per share, the mid-point of the range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the mid-point of the range set forth on the cover page of this prospectus, would increase (decrease) the pro forma as adjusted amount of our cash and cash equivalents, working capital, total assets and total stockholders' equity by approximately $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

(4) Working capital is defined as current assets minus current liabilities.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider all the risk factors and uncertainties described below, together with all of the other information in this prospectus, including the consolidated financial statements and the related notes appearing at the end of this prospectus, before deciding whether to invest in our common stock. If any of the following risks were to materialize, our business, financial condition, results of operations and future prospects could be materially and adversely affected. The trading price of our common stock could decline as a result of any of these risks, and you could lose part or even all of your investment in our common stock.

We have incurred losses in the past, and we may not be able to achieve or sustain profitability for the foreseeable future.

We have incurred net losses from time to time. We incurred net losses of approximately $130,000 in fiscal 2011 and incurred net losses of approximately $1.6 million in the first two quarters of fiscal 2014. We have been growing our number of clients rapidly, and as we do so, we incur significant sales and marketing, services and other related expenses. Our profitability will depend in significant part on our obtaining sufficient scale and productivity that the cost of adding and supporting new clients does not outweigh our revenues. We intend for the foreseeable future to continue to focus predominately on adding new clients, and we cannot predict when we will achieve sustained profitability, if at all. We also expect to make other significant expenditures and investments in research and development to expand and improve our product offerings and technical infrastructure. In addition, as a public company, we will incur significant legal, accounting and other expenses that we do not incur as a private company. These increased expenditures will make it harder for us to achieve and maintain profitability. We also may incur losses in the future for a number of other unforeseen reasons. Accordingly, we may not be able to maintain profitability, and we may incur losses for the foreseeable future.

Our quarterly operating results have fluctuated in the past and may continue to fluctuate, causing the value of our common stock to decline substantially.

Our quarterly operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Moreover, our stock price might be based on expectations of future performance that are unrealistic or that we might not meet and, if our revenue or operating results fall below such expectations, the price of our common stock could decline substantially.

Our number of new clients 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 payroll and HCM solutions at the beginning of a calendar year. In addition, client funds and year-end activities are traditionally higher during our third fiscal quarter. As a result of these factors, our total revenue and expenses have historically grown disproportionately during our third fiscal quarter as compared to other quarters.

In addition to other risk factors listed in this section, some of the important factors that may cause fluctuations in our quarterly operating results include:

- 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;
- Changes in the regulatory requirements and environment related to the products and services which we offer; and
- Unforeseen legal expenses, including litigation and settlement costs.

We do not have long-term agreements with clients, and our standard agreements with clients are generally terminable by our clients upon 60 or fewer days' notice. If a significant number of clients elected to terminate their agreements with us, our operating results and our business would be adversely affected.

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 cause significant changes in our operating results from period to period. If this occurs, the trading price of our common stock could fall substantially, either suddenly or over time.

Our operating results for previous fiscal quarters are not necessarily indicative of our operating results for the full fiscal years or for any future periods. We believe that, due to the underlying factors for quarterly fluctuations, quarter-to-quarter comparisons of our operations are not necessarily meaningful and that such comparisons should not be relied upon as indications of future performance.

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

We have been rapidly growing our revenue and number of clients, and we will seek to do the same for the foreseeable future. However, the growth in our number of clients puts significant strain on our business, requires significant capital expenditures and increases our operating expenses. To manage this growth effectively, we must attract, train, and retain a 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. If we fail to effectively manage our growth or we over-invest or under-invest in our business, our business and results of operations could suffer from the resultant weaknesses in our infrastructure, systems or controls. We could also suffer operational mistakes, a loss of business opportunities and employee losses. If our management is unable to effectively manage our growth, our expenses might increase more than expected, our revenue could decline or might grow more slowly than expected, and we might be unable to implement our business strategy.

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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 payroll and HCM solutions is fragmented, highly competitive and rapidly changing. Our competitors vary for each of our solutions, and include enterprise-focused software providers, such as Ultimate Software Group, Inc., Workday, Inc., SAP AG, Oracle Corporation and Ceridian Corporation, payroll service providers, such as Automatic Data Processing, Inc., Paychex, Inc. and other regional providers, and HCM point solutions, such as Cornerstone OnDemand, Inc.

Several of our competitors are larger, 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. 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, current or potential clients might accept competitive offerings in lieu of purchasing our offerings. We expect intense competition to continue for these reasons, and such competition could negatively impact our sales, profitability or market share.

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

The market for our solutions is characterized by rapid technological advancements, changes in 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 could undermine our current market position.

Our success depends in substantial part on our continuing ability to provide products and services that medium-sized 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 in order 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 sales may suffer.

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

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

If we are unable to release periodic updates on a timely basis to reflect changes in tax, benefit and other laws and regulations that our products help our clients address, the market acceptance of our products may be adversely affected and our revenues could decline.

Our solutions are affected by changes in tax, benefit and other laws and regulations and generally must be updated regularly to maintain their accuracy and competitiveness. Although we believe our SaaS platform provides us with flexibility to release updates in response to these changes, we cannot be certain that we will be able to make the necessary changes to our solutions and release updates on a timely basis, or at all. Failure to do so could have an adverse effect on the functionality and market acceptance of our solutions. In addition, significant changes in tax, benefit and other laws and regulations could require us to make significant modifications to our products, which could result in substantial expenses.

Because of the way we recognize our revenue and our expenses over varying periods, changes in our business may not be immediately reflected in our financial statements.

We recognize our revenue as services are performed. The amount of revenue we recognize in any particular period is derived in significant part based on the number of employees of our clients served by our solutions. As a result, our revenue is dependent in part on the success of our clients. The effect on our revenue of significant changes in sales of our solutions or in our clients' businesses may not be fully reflected in our results of operations until future periods.

We recognize our expenses over varying periods based on the nature of the expense. In particular, we recognize implementation costs and sales commissions as they are incurred even though we recognize revenue as we perform services over extended periods. When a client terminates its relationship with us, we may not have derived enough revenue from that client to cover associated implementation costs. As a result, we may report poor operating results due to higher implementation costs and sales commissions in a period in which we experience strong sales of our solutions. Alternatively, we may report better operating results due to lower implementation costs and sales commissions in a period in which we experience a slowdown in sales. As a result, our expenses fluctuate as a percentage of revenue, and changes in our business generally may not be immediately reflected in our results of operations.

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 and system passwords. 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 or the systems of our clients could result in the unauthorized disclosure of confidential information, 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. While 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, if our security measures are breached, our business could be substantially harmed and we could incur significant liabilities. 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.

If we fail to adequately expand our direct sales force with qualified and productive persons, we may not be able to grow our business effectively.

We primarily sell our products and implementation services through our direct sales force. To grow our business, we intend to focus on growing our client base for the foreseeable future. Our ability to add clients and to achieve revenue growth in the future will depend upon our ability to grow and develop our direct sales force and on their ability to productively sell our solutions. Identifying and recruiting qualified personnel and training them in the use of our software require significant time, expense and attention. The amount of time it takes for our sales representatives to be fully-trained and to become productive varies widely. In addition, if we hire sales representatives 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.

If our sales organization does not perform as expected, our revenues and revenue growth could suffer. In addition, if we are unable to hire, develop and retain talented sales personnel, if our sales force becomes less efficient as it grows or if new sales representatives are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to grow our client base and revenues and our sales and marketing expenses may increase.

If our referral network participants reduce their referrals to us, we may not be able to grow our client base or revenues in the future.

Referrals from third-party service providers, including 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants, represent a significant source of potential clients for our products and implementation services. For example, we estimate that approximately 25% of our new sales in fiscal 2013 were referred to us from our referral network participants, and our referral network may become an even more significant source of client referrals in the future. In most cases, our relationships with referral network participants are informal,

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although in some cases, we have formalized relationships where we are a recommended vendor for their client.

Participants in our referral network are generally under no contractual obligation to continue to refer business to us, and we do not intend to seek contractual relationships with these participants. In addition, these participants are generally not compensated for referring potential clients to us, and may choose to instead refer potential clients to our competitors. Our ability to achieve revenue growth in the future will depend, in part, upon continued referrals from our network.

There can be no assurance that we will be successful in maintaining, expanding or developing our referral network. If our relationships with participants in our referral network were to deteriorate or if any of our competitors enter into strategic relationships with our referral network participants, sales leads from these participants could be reduced or cease entirely. If we are not successful, we may lose sales opportunities and our revenues and profitability could suffer.

If the market for cloud-based payroll and HCM solutions among medium-sized organizations develops more slowly than we expect or declines, our business could be adversely affected.

We believe that the market for cloud-based payroll and HCM solutions is not as mature among medium-sized organizations as the market for outsourced services or on-premise software and services. It is not certain that cloud-based solutions will achieve and sustain high levels of client demand and market acceptance. Our success will depend to a substantial extent on the widespread adoption by medium-sized organizations of cloud-based computing in general, and of payroll and other HCM applications in particular. It is difficult to predict client adoption rates and demand for our solutions, the future growth rate and size of the cloud-based market or the entry of competitive solutions. The expansion of the cloud-based market depends on a number of factors, including the cost, performance, and perceived value associated with cloud-based computing, as well as the ability of cloud-based solutions to address security and privacy concerns. If other cloud-based providers experience security incidents, loss of client data, disruptions in delivery or other problems, the market for cloud-based applications as a whole, including our solutions, may be negatively affected. If cloud-based payroll and HCM solutions do not achieve widespread adoption among medium-sized organizations, or there is a reduction in demand for cloud-based computing caused by a lack of client acceptance, technological challenges, weakening economic conditions, security or privacy concerns, competing technologies and products, decreases in corporate spending or otherwise, it could result in a loss of clients, decreased revenues and an adverse impact on our business.

We typically pay 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. For example, in fiscal 2013 we processed almost $30 billion in payroll transactions. Though we debit a client's account prior to any disbursement on its behalf, due to 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 substantial amounts of funds to cover such obligations. In such an event, we may be

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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.

Adverse changes in economic or political conditions could adversely affect our operating results and our business.

Our recurring revenues are based in part on the number of our clients' employees. As a result, we are subject to risks arising from adverse changes in economic and political conditions. The state of the economy and the rate of employment, which deteriorated in the recent broad recession, may deteriorate further in the future. If weakness in the economy continues or worsens, many clients may reduce their number of employees and delay or reduce technology purchases. This could also result in reductions in our revenues and sales of our products, longer sales cycles, increased price competition and clients' purchasing fewer solutions than they have in the past. Any of these events would likely harm our business, results of operations, financial condition and cash flows from operations.

Trade, monetary and fiscal policies, and political and economic conditions may substantially change, and credit markets may experience periods of constriction and volatility. When there is a slowdown in the economy, employment levels and interest rates may decrease with a corresponding impact on our businesses. Clients may react to worsening conditions by reducing their spending on payroll and other HCM solutions or renegotiating their contracts with us. We have agreements with various large banks to execute Automated Clearing House, or ACH, and wire transfers as part of our client payroll and tax services. While we have contingency plans in place for bank failures, 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 impede us from accessing and processing funds on our clients' behalf, and could have an adverse impact on our business and liquidity.

If the banks that currently provide ACH and wire transfers fail to properly transmit ACH or terminate their relationship with us or limit our ability to process funds or we are not able to increase our ACH capacity with our existing and new banks, our ability to process funds on behalf of our clients and our financial results and liquidity could be adversely affected.

We currently have agreements with nine banks to execute ACH and wire transfers to support our client payroll 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 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 financial results and liquidity.

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 could adversely affect our business.

Our success depends largely upon the continued services of our key executive officers, including Steven R. Beauchamp, our President and Chief Executive Officer. We also rely on our leadership team in the areas of research and development, sales, services 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 certain of our executive officers, including Mr. Beauchamp, these employment agreements do not require them to continue to work for us for any specified

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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.

If we are unable to recruit and retain highly-skilled product development and other technical persons, our ability to develop and support widely-accepted products could be impaired and our business could be harmed.

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 and Internet-related products and services. Competition for these personnel in the greater Chicago area and elsewhere 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 other research and development 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.

The sale and support of products and the performance of related services by us entail the risk of product or service liability claims, which could significantly affect our financial results.

Clients use our products in connection with the preparation and filing of tax returns and other regulatory reports. If any of our products contain errors that produce inaccurate results upon which users rely, or cause users to misfile or fail to file required information, we could be subject to liability claims from users. Our 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.

Privacy concerns and laws or other domestic regulations may reduce the effectiveness of our applications and adversely affect our business.

Our clients collect, use and store personal or identifying information regarding their employees and their family members in our solutions. Federal and state government bodies and agencies have adopted, are considering adopting, or may adopt laws and regulations regarding the collection, use, storage and disclosure of such personal information. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to our clients' businesses may limit the use and adoption of our applications and reduce overall demand, or lead to significant fines, penalties or liabilities for any noncompliance with such privacy laws. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our solutions.

All of these legislative and regulatory initiatives may adversely affect our clients' ability to process, handle, store, use and transmit demographic and personal information regarding their employees and family members, which could reduce demand for our solutions.

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. If the processing of personal information were to be curtailed in this manner, our products would be less effective, which may reduce demand for our applications and adversely affect our business.

Our business could be adversely affected if we do not effectively implement our solutions or our clients are not satisfied with our implementation services.

Our ability to deliver our payroll and HCM solutions depends on our ability to effectively implement and to transition to, and train our clients on, our solutions. We do not recognize revenue from new clients until they process their first payroll. Further, our agreements with our clients are generally terminable by the clients on 60 days' notice. If a client is not satisfied with our implementation services, the client could terminate its agreement with us before we have recovered our costs of implementation services, which would adversely affect our results of operations and cash flows. In addition, negative publicity related to our client relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective clients.

Our business could be affected if we are unable to accommodate increased demand for our implementation services resulting from growth in our business.

We may be unable to respond quickly enough to accommodate increased client demand for implementation services driven by our growth. The implementation process is the first substantive interaction with a new client. As a predicate to providing knowledgeable implementation services, we must have a sufficient number of personnel dedicated to that process. In order to ensure that we have sufficient employees to implement our solutions, we must closely coordinate hiring of personnel with our projected sales for a particular period. Because our sales cycle is typically only three to six weeks long, we may not be successful in coordinating hiring of implementation personnel to meet increased demand for our implementation services. Increased demand for implementation services without a corresponding staffing increase of qualified personnel could adversely affect the quality of services provided to new clients, and our business and our reputation could be harmed.

Any failure to offer high-quality client services may adversely affect our relationships with our clients and our financial results.

Once our applications are deployed, our clients depend on our client service organization to resolve issues relating to our solutions. Our clients are medium-sized organizations with limited personnel and resources to address payroll and other HCM related issues. These clients rely on us more so than larger companies with greater internal resources and expertise. High-quality client services are important for the successful marketing and sale of our products and for the retention of existing clients. If we do not help our clients quickly resolve issues and provide effective ongoing support, our ability to sell additional products to existing clients would suffer and our reputation with existing or potential clients would be harmed.

In addition, our sales process is highly dependent on our applications and business reputation and on positive recommendations from our existing clients. Any failure to maintain high-quality client services, or a market perception that we do not maintain high-quality client services, could adversely affect our reputation, our ability to sell our solutions to existing and prospective clients, and our business, operating results and financial position.

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If we fail to manage our technical operations infrastructure, our existing clients may experience service outages and our new clients may experience delays in the deployment of our applications.

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 center and other operations infrastructure to meet the needs of all of our clients. We also seek to maintain excess capacity to facilitate the rapid provision of 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 applications. However, the provision of new hosting infrastructure requires significant lead time. We have experienced, 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. 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 applications 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. Our services are designed to operate without interruption. However, we have experienced and expect that we will experience future interruptions and delays in services and availability from time to time. 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 and other force majeure events outside our control;
- Communications failures;
- Software and hardware errors, failures and crashes;
- Security breaches, computer viruses, hacking, denial-of-service attacks and similar disruptive problems; and
- Other potential interruptions.

We also rely on computer hardware purchased or leased and software licensed from third parties in order to offer our services. These licenses and hardware are generally commercially available on varying terms. However, it is possible that this hardware and software might not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated.

Furthermore, our payroll application is essential to our clients' timely payment of wages to their employees. Any interruption in our service may affect the availability, accuracy or timeliness of these programs and could damage our reputation, cause our clients to terminate their use of our

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application, 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.

Any disruption in the operation of our data centers could adversely affect our business.

We host our applications and serve all of our clients from data centers located at our company headquarters in Arlington Heights, Illinois with a backup data center at a third-party facility in Kenosha, Wisconsin. We also may decide to employ additional offsite data centers in the future to accommodate growth.

Problems faced by our data center locations, 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 our data centers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business and cause us to incur additional expense. In addition, any financial difficulties faced by our third-party data center's operator or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Any changes in service levels at our third-party data center or any errors, defects, disruptions or other performance problems with our applications 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 center, we do not control the operation of this facility. The operator of our Wisconsin data center facility has no obligation to renew its agreement with us on commercially reasonable terms, or at all. If we are unable to renew this agreement on commercially reasonable terms, or if the data center operator is acquired, we may be required to transfer our servers and other infrastructure to a new data center facility, and we may incur costs and experience service interruption in doing so.

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

Our payroll and HCM software is complex and may contain or develop undetected defects or errors, particularly when first introduced or as new versions 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 are frequent, we discover defects and errors in our software and service processes in the normal course of business compared against these requirements and practices. Material performance problems or defects in our products and services might arise in the future, which could have an adverse impact on our business and client relationship and subject us to claims.

Moreover, software development is time-consuming, expensive and complex. Unforeseen difficulties can arise. We might encounter technical obstacles, and it is possible that we discover problems that prevent our products from operating properly. If they do not function reliably or fail to achieve client expectations in terms of performance, clients could cancel their agreements with us and/or assert liability claims against us. This could damage our reputation, impair our ability to attract or maintain clients and harm our results of operations.

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. Defects or errors in our product or service processes might discourage existing or potential clients from purchasing from us. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability might be substantial and could adversely affect our operating results.

Because of the large amount of data that we collect and manage, it is possible that hardware failures or errors in our systems could result in data loss or corruption, or 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. The costs incurred in correcting any errors or in responding to regulatory authorities or to resulting claims or liability might be substantial and could adversely affect our operating results.

We 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.

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.

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 funds held for our clients in liquid, investment-grade marketable securities, money market securities, and other cash equivalents. Nevertheless, our 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 client funds could have an adverse impact on our cash position and results of operations and could require us to obtain additional sources of liquidity.

In addition, these funds are held in consolidated trust accounts, 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.

If we are required to collect sales and use taxes in additional jurisdictions, we might be subject to liability for past sales and our future sales may decrease. 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 is evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services provided over the Internet. These enactments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and ultimately result in a negative impact on our operating results and cash flows.

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us (possibly with retroactive effect), which could require us or our clients to pay additional tax amounts, as well as require us or our clients to pay fines or penalties and interest for past amounts.

For example, we might lose sales or incur significant expenses if states successfully impose broader guidelines on state sales and use taxes. A successful assertion by one or more states requiring us to collect sales or other taxes on the licensing of our software or provision of our services could result in substantial tax liabilities for past transactions and otherwise harm our business. Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that change over time. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, we may voluntarily engage state tax authorities in order to determine how to comply with that state's rules and regulations. We cannot 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.

Vendors of services, like us, are typically held responsible by taxing authorities for the collection and payment of any applicable sales and similar taxes. 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 in addition to taxes going forward. Liability for past taxes might also include substantial interest and penalty charges. Our clients typically pay us for applicable sales and similar taxes. Nevertheless, our clients might be reluctant to pay back taxes and might refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our clients fail or refuse to reimburse us for all or a portion of these amounts, we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on us going forward will effectively increase the cost of our software and services to our clients and might adversely affect our ability to retain existing clients or to gain new clients in the areas in which such taxes are imposed.

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 or employment claims made by our current or former employees. 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.

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. 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. Our proprietary technologies are not covered by any patent or patent application. 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.

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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 addition, we depend, in part, on technology of third parties licensed to us for our solutions, and the loss or inability to maintain these licenses or errors in the software we license could result in increased costs, reduced service levels or delayed sales of our solutions.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. 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 injure 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 applications 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. We may also be obligated to indemnify our clients or business partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation 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.

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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.

If third-party software used in our products is not adequately maintained or updated, our business could be materially adversely affected.

Our products utilize certain software of third-party software developers. For example, we license technology from bswift as part of our Paylocity Web Benefits solution. 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.

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our applications, and could have a negative impact on our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our applications in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, resulting in reductions in the demand for Internet-based applications such as ours.

In addition, the use of the Internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease of use, accessibility,and quality of service. The performance of the Internet and its acceptance as a business tool has been adversely affected by "viruses," "worms" and similar malicious programs, and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the Internet is adversely affected by these issues, demand for our applications could suffer.

Furthermore, the availability or performance of our applications could be adversely affected by a number of factors, including clients' inability to access the Internet, the failure of our network or software systems, security breaches or variability in user traffic for our services. For example, our clients access our solutions through their Internet service providers. If a service provider fails to provide sufficient capacity to support our applications or otherwise experiences service outages, such failure could interrupt our clients' access to our solutions, adversely affect their perception of our applications' reliability and reduce our revenues. In addition to potential liability, if we experience interruptions in the availability of our applications, our reputation could be adversely affected and we could lose clients.

Regulatory requirements placed on 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 regulatory requirements, and as these requirements proliferate, we may be required to change or adapt our products and services to comply. Changing regulatory requirements might render our products and services obsolete or might block us from developing new products and services. This might in turn impose additional costs upon us to comply or to further develop our products and services. It might also make introduction of new products and services more costly or more time-consuming than we currently anticipate. It might even prevent introduction by us of new products or services or cause the continuation of our existing products or services to become more costly.

We might require additional capital to support business growth, and this capital might not be available.

We intend to continue to make investments to support our business growth and might require additional funds to respond to business challenges or opportunities, including the need to develop new products and services or enhance our existing services, enhance our operating infrastructure, and acquire complementary businesses and technologies. Accordingly, we might need to engage in equity or debt financings to secure additional funds. In addition, we will need to expand our ACH capacity as we grow our business. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing or ACH facility secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital and to pursue business opportunities and to grow our business. In addition, we might not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Our services present the potential for embezzlement, identity theft, or other similar illegal behavior by our associates with respect to third parties.

Certain services offered by us involve collecting payroll information from individuals, and this frequently includes information about their checking accounts. Our services also involve the use and disclosure of personal and business information that could be used to impersonate third parties, commit identity theft, or otherwise gain access to their data or funds. If any of our associates take, convert, or misuse such funds, documents or data, we could be liable for damages, and our business reputation could be damaged or destroyed. Moreover, if we fail to adequately prevent third parties from accessing personal and/or business information and using that information to commit identity theft, we might face legal liabilities and other losses than can have a negative impact on our business.

We rely on a third-party shipping provider to deliver printed checks to our clients, and therefore our business could be negatively impacted by disruptions in the operations of this third-party provider.

We rely on third-party couriers such as the United Parcel Service, or UPS, to ship printed checks to our clients. Relying on UPS and other third-party couriers puts us at risk from disruptions in their operations, such as employee strikes, inclement weather and their ability to perform tasks on our behalf. If UPS or other third-party couriers fail to perform their tasks, we could incur liability or suffer damages to our reputation, or both. If we are forced to use other third-party couriers, our costs could increase and we may not be able to meet shipment deadlines. Moreover, we may not be able to obtain terms as favorable as those we currently use, which could further increase our costs. These circumstances may negatively impact our business, financial condition and results of operations.

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 SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

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 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.

In addition, we have limited experience in acquiring other businesses. If we acquire additional businesses, we may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may

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not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- Inability to integrate or benefit from acquired technologies or services in a profitable manner;
- Unanticipated costs or liabilities associated with the acquisition;
- Incurrence of acquisition-related costs;
- Difficulty integrating the accounting systems, operations and personnel of the acquired business;
- Difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- Difficulty converting the clients of the acquired business onto our applications 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; and
- Use of substantial portions of our available cash to consummate the acquisition.

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.

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

Risks Related to Our Initial Public Offering and Ownership of Our Common Stock

Insiders will continue to have substantial control over us after this offering, which may limit our stockholders' ability to influence corporate matters and delay or prevent a third party from acquiring control over us.

Upon completion of this offering, our directors, executive officers and holders of more than 5% of our common stock, together with their respective affiliates, will beneficially own, in the aggregate, approximately % 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 your ability 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. For information regarding the ownership of

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our outstanding stock by our executive officers and directors and their affiliates, please see the section entitled "Principal and Selling Stockholders."

We have broad discretion in the use of the net proceeds from this offering and might not use them effectively.

Our management will have broad discretion in the use of proceeds from this offering, including for any of the purposes described in "Use of Proceeds." Accordingly, you will have to rely on the judgment of our management with respect to the use of the proceeds, with only limited information concerning management's specific intentions. Our management might spend a portion or all of the net proceeds from this offering in ways that our stockholders do not desire or that might not yield a favorable return. The failure by our management to apply these funds effectively could harm our business. Pending their use, we might invest the net proceeds from this offering in a manner that does not produce income or that loses value.

An active, liquid, and orderly market for our common stock may not develop.

Prior to this offering, there was no market for shares of our common stock. An active trading market for our common stock might never develop or be sustained, which could depress the market price of our common stock and affect your ability to sell our shares. The initial public offering price will be determined through negotiations between us and the representatives of the underwriters and might bear no relationship to the price at which our common stock will trade following the completion of this offering. The trading price of our common stock following this offering is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- 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 and executive officers;
- 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;
- The market's reaction to our reduced disclosure as a result of being an emerging growth company under the JOBS Act;
- Threatened or actual litigation; and
- Other events or factors, including changes in general conditions in the United States and global economies or financial markets (including those resulting from ongoing budget negotiations and intermittent government shutdowns in the United States, acts of God, war, incidents of terrorism, or responses to such events).

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In addition, the stock market in general and the market for Internet-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. These fluctuations might be even more pronounced in the trading market for our stock shortly following this offering. 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 only declared or paid cash dividends on our common stock once since 2008 and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. 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 of shares of our common stock by existing stockholders could depress the market price of our common stock.

The price of our common stock could decline if there are substantial sales of our common stock in the public stock market after this offering. After this offering, we will have an aggregate of outstanding shares of common stock. This includes shares being sold in this offering, all of which may be resold in the public market immediately following this offering. The remaining shares, or approximately of our outstanding shares after this offering, are currently restricted as a result of securities laws or lock-up agreements but will be able to be sold in the near future as set forth below:

Number of shares and percentage of total outstanding	**Date available for sale into public market**
shares, or %	Immediately after this offering.
shares, or %	Generally, 180 days after the date of this prospectus due to lock-up agreements between certain of the holders of these shares and the underwriters and to contractual arrangements between the other holders of these shares and us, subject to certain exceptions and also to potential extensions under certain circumstances, of which will be subject to volume and other sale restrictions.

We also intend to register all common stock that we may issue under our stock plans. Effective upon the completion of this offering, an aggregate of shares of our common stock will be reserved for future issuance under these plans, assuming no exercise of outstanding options after December 31, 2013. Once we register these shares, which we plan to do shortly after the completion of this offering, they can be freely sold in the public market upon issuance, subject to the lock-up agreements referred to above. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock. See "Shares Eligible for Future Sale" for a more detailed description of sales that may occur in the future.

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We, certain of our securityholders, our directors and our executive officers have agreed to lock-up agreements that restrict us, these securityholders and our directors and executive officers, subject to specified exceptions, from selling or otherwise disposing of any shares of our stock for a period of 180 days after the date of this prospectus. The underwriters may, in their sole discretion and without notice, release all or any portion of the shares from the restrictions of any lock-up agreements described above. In addition, these lock-up agreements are subject to the exceptions described in the section of this prospectus entitled "Underwriting." Also, in the future, we may issue 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 of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

You will experience immediate and substantial dilution.

The initial public offering price will be substantially higher than the net tangible book value of each outstanding share of common stock immediately after this offering. If you purchase common stock in this offering, you will suffer immediate and substantial dilution. At an assumed initial public offering price of $ with net proceeds to us of $ million, after deducting estimated underwriting discounts and commissions and estimated offering expenses, investors who purchase shares in this offering from us will have contributed approximately % of the total amount of funding we have received to date, but the shares purchased from us in this offering will represent only approximately % of the total voting rights. The dilution will be $ per share in the net tangible book value of the common stock from the assumed initial public offering price. In addition, if outstanding options to purchase shares of our common stock are exercised, there could be further dilution. For more information, refer to "Dilution."

If we are unable to implement and maintain effective internal controls over financial reporting in the future, 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 will be 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, beginning with our annual report for the fiscal year ending June 30, 2015, provide a management report on the internal controls over financial reporting, which must be attested to by our independent registered public accounting firm to the extent we are no longer an "emerging growth company," as defined by the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. 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. We are in the process of designing and implementing the internal controls over financial reporting required to comply with this obligation, which process will be time consuming, costly and complicated. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, 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.

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We will incur significantly increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and will be required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC and the NASDAQ Global Select Market including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. We expect that compliance with these requirements will increase our legal and financial compliance costs and will make some activities more time consuming and costly. In addition, we expect that our management and other personnel will need to divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, which will increase when we are no longer an emerging growth company, as defined by the JOBS Act. We will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and may need to establish an internal audit function. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

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. For more information, see the section entitled "Description of Capital Stock Anti-Takeover Provisions Under Our Charter and Bylaws and Delaware Law." In addition, our restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our restated certificate of incorporation and amended and restated bylaws, which will be in effect as of the closing of this offering:

- 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.

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We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies.

For as long as we continue to be an emerging growth company, we intend to take advantage of certain other exemptions from various reporting requirements that are applicable to other public companies including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved, and exemptions from the requirements of auditor attestation reports on the effectiveness of our internal control over financial reporting. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Although we are eligible under the JOBS Act to delay adoption of new or revised financial accounting standards until they are applicable to private companies, we have elected not to avail ourselves of this exclusion. This election by us is irrevocable.

We will remain an emerging growth company until the earliest of (i) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds $700 million as of December 31 of that fiscal year, (ii) the end of the fiscal year in which we have total annual gross revenue of $1 billion or more during such fiscal year, (iii) the date on which we issue more than $1 billion in non-convertible debt in a three-year period or (iv) five years from the date of this prospectus.

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will, to some extent, depend on the research and reports that securities or industry analysts publish about us and our business. We do not have any control over these analysts. If few securities analysts commence coverage of us upon the completion of this offering, or if one or more of the analysts who cover us downgrade our common stock or change their opinion of our common stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections titled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," and "Executive Compensation" contains forward-looking statements. Forward-looking statements convey our current expectations or forecasts of future events. All statements contained in this prospectus, other than statements of historical fact or statements related to present facts or current conditions, are forward-looking. You can identify forward-looking statements by terminology such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "predicts," "potential," "seeks," "should," "will," or "would," or the negative of these terms, or similar expressions.

There are a number of important factors that could cause our actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include, but are not limited to:

- Our ability to attract new clients to enter into subscriptions for our products;
- Our ability to service clients effectively and induce them to continue to use our products and subscribe to additional products;
- Our ability to expand our sales organization to address effectively new geographies which we may target;
- Our ability to continue to expand our referral network of third parties, and to continue to provide data integration services compatibility with other third-party service providers;
- Our ability to accurately forecast revenue and appropriately plan our expenses;
- Continued acceptance of SaaS as an effective method for delivery payroll and HCM solutions;
- The attraction and retention of qualified employees and key personnel;
- Our ability to protect and defend our intellectual property;
- Costs associated with defending intellectual property infringement and other claims;
- Unexpected events in the market for our solutions;
- Future regulatory, judicial and legislative changes in our industry;
- Changes in the competitive environment in our industry and in the market in which we operate; and
- Other factors that we discuss in this prospectus in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this prospectus.

You should read these factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements contained in this prospectus are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act which does not extend to initial public offerings. Forward-looking statements represent our management's beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we have filed as exhibits to the registration

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statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity, and market share, is based on information from various sources (including IDC and other industry publications, surveys and forecasts, and our internal research), on assumptions that we have made, which we believe are reasonable, based on the data and other sources available to us and on our knowledge of the markets for our services. Our internal research has not been verified by any independent source. While we believe the market position, market opportunity, and market share information included in this prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk Factors" and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates included in this prospectus.

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USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $, based upon an assumed initial public offering price of $ per share, the mid-point of the range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, the net proceeds to us will be approximately $, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the net proceeds to us from this offering by approximately $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriter discounts and estimated offering expenses payable by us.

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

The principal reasons for this offering are to increase our financial flexibility, increase our visibility in the market place and create a public market for our common stock.

We expect to use a portion of the net proceeds from this offering to repay amounts outstanding under a note issued by us to Commerce Bank & Trust Company on March 9, 2011. As of December 31, 2013, we had $1.3 million outstanding under this note. The note bears interest at 6.50% per annum, payable monthly, and matures on December 31, 2015. Amounts borrowed under the note were used for working capital and other general corporate purposes.

Following the completion of this offering, we will have the right to acquire one of our resellers at any time. If we elect to acquire this reseller in the future, we may use a portion of the net proceeds from this offering to effect such purchase. However, we do not currently know when we would effect this acquisition or the purchase price to be paid to acquire the reseller. The purchase price would be determined at the time of the acquisition as a three times multiple of the annualized value of the amounts, net of certain reductions, paid by us to the reseller during the three months preceding such acquisition. We paid the reseller $1.0 million and $1.4 million during the six month periods ended December 31, 2012 and 2013, respectively.

We do not have current specific plans for the use of a significant portion of the net proceeds from this offering. We generally intend to use the balance of the net proceeds of this offering for working capital and other general corporate purposes, including to finance our growth, enhance and improve our products and services, fund capital expenditures, or expand our existing business through investments in or acquisitions of other businesses, solutions, or technologies. However, we do not have any commitments for any such investments or acquisitions at this time.

Pending the uses mentioned above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities. Our management will have broad discretion in the application of the net proceeds to us from this offering and investors will be relying on the judgment of our management regarding the application of the proceeds.

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DIVIDEND POLICY

We declared and paid a one-time, special cash dividend on our common stock in the aggregate amount of $3,500,000 in May 2008. Neither Delaware law nor our amended and restated certificate of incorporation requires our board of directors to declare dividends on our common stock. Any future determination to declare cash dividends on our common stock will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. We do not anticipate paying cash dividends on our common stock for the foreseeable future.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2013:

- On an actual basis;
- On a pro forma basis to give effect to (i) the automatic conversion of all of our outstanding convertible preferred stock into shares of common stock upon the completion of this offering; and (ii) the filing of our amended and restated certificate of incorporation to be effective upon completion of this offering; and
- On a pro forma as adjusted basis to give effect to the pro forma adjustments listed above and the sale by us of shares of common stock by us in this offering at an assumed initial public offering price of $ per share, the mid-point of the range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The pro forma as adjusted information set forth in the table below is for illustrative purposes only and will adjust based on the actual initial public offering price and other terms of this offering determined at pricing.

You should read the information in this table together with our consolidated financial statements and related notes, the sections entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other information appearing elsewhere in this prospectus.

	As of December 31, 2013		
	Actual	Pro Forma	Pro Forma As Adjusted(1)
	(dollars in thousands)		
Cash and cash equivalents	$ 2,829		
Long-term debt, including current maturities	1,250		
Preferred stock, $0.001 par value, 18,000 shares authorized and 17,900 shares outstanding, actual; no shares authorized and outstanding, pro forma; no shares authorized and outstanding, pro forma as adjusted	36,573		
Stockholders' equity (deficit):			
Preferred stock: $0.001 par value, no shares authorized and outstanding, actual; shares authorized and no shares outstanding, pro forma; shares authorized and no shares outstanding, pro forma as adjusted			
Common stock: $0.001 par value, 100,000 shares authorized, 47,983 shares issued and outstanding, actual; shares authorized, shares issued and outstanding, pro forma; shares authorized and shares outstanding, pro forma as adjusted	48		
Additional paid-in capital	786		
Accumulated deficit	(28,633)		
Total stockholders' equity (deficit)	$ (27,799)	$	$
Total capitalization	$ 10,024	$	$

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the mid-point of the range set forth on the cover page of this prospectus, would increase (decrease) the pro forma as adjusted amount of each of additional paid-in capital,

total

stockholders' equity and total capitalization by approximately $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

The number of shares of common stock outstanding set forth in the table above is based on 65,882,448 shares of common stock outstanding as of December 31, 2013 after giving effect to the conversion of shares of convertible preferred stock into an equivalent number of shares of common stock upon the closing of this offering, and excludes:

- 3,563,587 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2013, having a weighted average exercise price of $2.72 per share;
- shares of common stock issuable upon exercise of stock options granted effective upon the pricing of this offering, at an exercise price equal to the initial public offering price listed on the cover page of this prospectus, under our 2014 Equity Incentive Plan;
- shares of common stock subject to restricted stock unit agreements under our 2014 Equity Incentive Plan;
- 7,052,277 shares of common stock reserved for future issuance under our 2014 Equity Incentive Plan;
- 1,500,000 shares of common stock reserved for future issuance under our 2014 Employee Stock Purchase Plan; and
- 403,800 shares of common stock subject to restricted stock award agreements under our 2008 Equity Incentive Plan.

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DILUTION

As of , we had a pro forma net tangible book value of $ million, or $ per share of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of common stock outstanding after giving effect to the conversion of our convertible preferred stock into shares of common stock upon the completion of this offering. Dilution in net tangible book value per share to new investors in this offering represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma net tangible book value per share of common stock immediately after the completion of this offering. After giving effect to the sale of the shares of common stock offered by us in this offering at an assumed initial public offering price of $ per share, the mid-point of the range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of would have been $ million, or $ per share of common stock. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors in our common stock. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share		$
Pro forma net tangible book value per share as of before giving effect to this offering	$	
Increase in net tangible book value per share attributable to new investors	$	
Pro forma as adjusted net tangible book value per share after giving effect to this offering		$
Dilution per share to new investors in this offering		$

Each $1.00 increase (decrease) in the assumed public offering price per share of common stock would increase (decrease) the pro forma as adjusted net tangible book value by $ per share and the net tangible book value dilution to investors in this offering by $ per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses.

If the underwriters exercise their option to purchase additional shares of our common stock in full, the pro forma as adjusted net tangible book value per share after this offering would be $ per share, and the dilution in pro forma as adjusted net tangible book value per share to new investors in this offering would be $ per share.

The following table summarizes, on a pro forma as adjusted basis after giving effect to the offering, based on an assumed initial public offering price of $ per share, the mid-point of the price range set forth on the cover page of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, the differences between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid.

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	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	65,882,448	%	$ 36,783,712	%	$ 0.56
New investors		%	$	%	$
Total		100%	$	100%	$

If the underwriters exercise their over-allotment option in full, our existing stockholders would own % and our new investors would own % of the total number of shares of our common stock outstanding after this offering.

If all our outstanding options had been exercised, as of , we would have had net tangible book value of $ million, or $ per share, and the pro forma net tangible book value after this offering would have been $ million, or $ per share, causing dilution to new investors of $ per share.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected consolidated financial data as of the dates and for the periods indicated. The selected consolidated statements of operations data for the fiscal years ended June 30, 2011, 2012 and 2013 and the consolidated balance sheet data as of June 30, 2011, 2012 and 2013 have been derived from the audited consolidated financial statements included elsewhere in this prospectus. Our consolidated statements of operations data for the six months ended December 31, 2012 and 2013 and the selected consolidated balance sheet data presented below as of December 31, 2013 have been derived from unaudited consolidated financial statements included elsewhere in this prospectus. The selected consolidated balance sheet data presented below as of December 31, 2012 has been derived from unaudited consolidated financial statements not included in this prospectus. Historical results are not necessarily indicative of future results. This selected consolidated financial data should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	Year Ended June 30,			Six Months Ended December 31,	
	2011	2012	2013	2012	2013
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Recurring fees	$ 36,443	$ 51,211	$ 71,309	$ 30,639	$ 42,883
Interest income on funds held for clients	1,100	1,263	1,459	625	731
Total recurring revenues	37,543	52,474	72,768	31,264	43,614
Implementation services and other	1,941	2,622	4,526	1,762	2,660
Total revenues	39,484	55,096	77,294	33,026	46,274
Cost of revenues:					
Recurring revenues	16,329	22,054	28,863	13,294	17,074
Implementation services and other	5,416	7,040	10,803	4,762	7,991
Total cost of revenues	21,745	29,094	39,666	18,056	25,065
Gross profit	17,739	26,002	37,628	14,970	21,209
Operating expenses:					
Sales and marketing	9,293	12,828	18,693	7,826	10,612
Research and development	1,565	1,788	6,825	3,054	4,303
General and administrative	6,868	8,618	12,079	5,794	9,139
Total operating expenses	17,726	23,234	37,597	16,674	24,054
Operating income (loss)	13	2,768	31	(1,704)	(2,845)
Other income (expense)	(179)	(196)	(16)	(9)	50
Income (loss) before income taxes	(166)	2,572	15	(1,713)	(2,795)
Income tax (benefit) expense	(36)	884	(602)	(681)	(1,239)
Net income (loss)	$ (130)	$ 1,688	$ 617	$ (1,032)	$ (1,556)

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	Year Ended June 30, 2011	Year Ended June 30, 2012	Year Ended June 30, 2013	Six Months Ended December 31, 2012	Six Months Ended December 31, 2013
	(in thousands, except per share data)				
Net income (loss) attributable to common stockholders	$ (774)	$ 998	$ (2,291)	$ (2,486)	$ (3,118)
Net income (loss) per share attributable to common stockholders:					
Basic	$ (0.01)	$ 0.02	$ (0.05)	$ (0.05)	$ (0.06)
Diluted	$ (0.01)	$ 0.02	$ (0.05)	$ (0.05)	$ (0.06)
Weighted average shares used in computing net income (loss) per share attributable to common stockholders:					
Basic	56,308	65,808	47,983	47,983	47,983
Diluted	56,308	66,475	47,983	47,983	47,983

	As of June 30, 2011	As of June 30, 2012	As of June 30, 2013	As of December 31, 2012	As of December 31, 2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 7,990	$ 9,031	$ 7,594	$ 5,890	$ 2,829
Working capital	4,488	2,786	2,305	1,652	(5,025)
Funds held for clients	298,979	263,255	355,905	343,063	491,763
Total assets	316,492	284,943	377,916	363,181	515,233
Debt, current portion	312	1,625	625	1,625	625
Client fund obligations	298,979	263,255	355,905	343,063	491,763
Long-term debt, less current portion	3,188	1,563	938	1,250	625
Redeemable convertible preferred stock	9,339	36,573	36,573	36,573	36,573
Stockholders' equity (deficit)	(2,254)	(27,646)	(26,592)	(28,503)	(27,799)

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements and related notes included elsewhere in this prospectus. Furthermore, the statements included herein that are not based solely on historical facts are "forward looking statements." Such forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties. Our actual results could differ materially from those anticipated by us in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under the section titled "Risk Factors."

Overview

We are a cloud-based provider of payroll and HCM software solutions for medium-sized organizations, which we define as those having between 20 and 1,000 employees. Our comprehensive and easy-to-use solutions enable our clients to manage their workforces more effectively. As of June 30, 2013, we served approximately 6,850 clients across the U.S., which on average had between 95 and 115 employees during each of the last three fiscal years. Our solutions help drive strategic human capital decision-making and improve employee engagement by enhancing the HR, payroll and finance capabilities of our clients.

Effective management of human capital is a core function in all organizations and requires a significant commitment of resources. Medium-sized organizations operating without the infrastructure, expertise or personnel of larger enterprises are uniquely pressured to manage their human capital effectively.

Our solutions were specifically designed to meet the payroll and HCM needs of medium-sized organizations. We designed our cloud-based platform to provide a unified suite of applications using a multi-tenant architecture. Our solutions are highly flexible and configurable and feature a modern, intuitive user experience. Our platform offers automated data integration with over 200 related third-party systems, such as 401(k), benefits and insurance provider systems.

Our Paylocity Web Pay product is our core payroll solution and was the first of our current offerings introduced into the market. We believe payroll is the most critical system of record for medium-sized organizations and an essential gateway to other HCM functionality. We have invested in, and we intend to continue to invest in, research and development to expand our product offerings and advance our platform.

We believe there is a significant opportunity to grow our business by increasing our number of clients and we intend to invest in our business to achieve this purpose. We market and sell our solutions primarily through our direct sales force. We have increased our sales and marketing expenses as we have added sales representatives and related sales and marketing personnel. We intend to continue to grow our sales and marketing organization across new and existing geographic territories. In addition to growing our number of clients, we intend to grow our revenue over the long term by increasing the number and quality of products that clients purchase from us. To do so, we must continue to enhance and grow the number of solutions we offer to advance our platform.

In addition to sales made through our direct sales force, we have contractual arrangements with two third-party resellers who resell our payroll and HCM solutions. We report revenue generated through these resellers at the gross amount billed to clients. Sales attributable to resellers totaled $3.8 million, $6.1 million and $8.6 million during fiscal 2011, 2012 and 2013,

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respectively. Cost of revenues attributable to resellers totaled $1.9 million, $3.0 million and $4.2 million during fiscal 2011, 2012 and 2013, respectively. See "Use of Proceeds" for information regarding our right to acquire one of the resellers.

We believe that delivering a positive service experience is an essential element of our ability to sell our solutions and retain our clients. We seek to develop deep relationships with our clients through our unified service model, which has been designed to meet the service needs of medium-sized organizations. We expect to continue to invest in and grow our implementation and client service organization as our client base grows.

We believe we have the opportunity to continue to grow our business over the long term, and to do so we have invested, and intend to continue to invest, across our entire organization. These investments include increasing the number of personnel across all functional areas, along with improving our solutions and infrastructure to support our growth. The timing and amount of these investments vary based on the rate at which we add new clients, add new personnel and scale our application development and other activities. Many of these investments will occur in advance of experiencing any direct benefit from them which will make it difficult to determine if we are effectively allocating our resources. We expect these investments to increase our costs on an absolute basis, but as we grow our number of clients and our related revenues, we anticipate that we will gain economies of scale and increased operating leverage. As a result, we expect our gross and operating margins will improve over the long term.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic conditions. If general economic conditions were to deteriorate further, including declines in private sector employment growth and business productivity, increases in the unemployment rate and changes in interest rates, we may experience delays in our sales cycles, increased pressure from prospective customers to offer discounts and increased pressure from existing customers to renew expiring recurring revenue agreements for lower amounts. Our interest income on funds held for clients continues to be negatively impacted by historically low interest rates.

Our operating subsidiary Paylocity Corporation was incorporated in July 1997 as an Illinois corporation. In November 2013, we formed Paylocity Holding Corporation, a Delaware corporation, of which Paylocity Corporation is now a wholly-owned subsidiary. Paylocity Holding Corporation had no operations prior to the restructuring. All of our business operations have historically been, and are currently, conducted by Paylocity Corporation, and the financial results presented herein are entirely attributable to the results of its operations.

Key Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

Recurring Revenue Growth

Our recurring revenue model and high annual revenue retention rates provide significant visibility into our future operating results and cash flow from operations. This visibility enables us to better manage and invest in our business. Recurring revenue, which is comprised of recurring fees and interest income on funds held for clients, increased from $52.5 million in fiscal 2012 to $72.8 million in fiscal 2013, representing a 39% year-over-year increase. Recurring revenue represented 95% and 94% of total revenue in fiscal 2012 and 2013, respectively. Recurring revenue increased from $31.3 million for the six months ended December 31, 2012 to $43.6 million for the six months ended December 31, 2013, representing a 40% year-over-year increase. Recurring

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revenue represented 95% and 94% of total revenue during the six months ended December 31, 2012 and 2013, respectively.

Client Count Growth

We believe there is a significant opportunity to grow our business by increasing our number of clients. We have increased our number of clients from approximately 4,400 as of June 30, 2011 to approximately 6,850 as of June 30, 2013, representing compound annual growth rate of approximately 25%. The table below sets forth our client count for the periods indicated, rounded to the nearest fifty.

	Year Ended June 30,		
	2011	2012	2013
Client Count	4,400	5,500	6,850

The rate at which we add clients is highly variable period-to-period and highly seasonal as many clients switch solutions during the first calendar quarter of each year. Although many clients have multiple divisions, segments or locations, we only count such clients once for these purposes.

Annual Revenue Retention Rate

Our annual revenue retention rate has been in excess of 92% during each of the past three fiscal years. We calculate our annual revenue retention rate as our total revenue for the preceding 12 months, less the annualized value of revenue lost during the preceding 12 months, divided by our total revenue for the preceding 12 months. We calculate the annualized value of revenue lost by summing the recurring fees paid by lost clients over the previous twelve months prior to their termination if they have been a client for a minimum of twelve months. For those lost clients who became clients within the last twelve months, we sum the recurring fees for the period that they have been a client and then annualize the amount. We exclude interest income on funds held for clients from the revenue retention calculation. We believe that our annual revenue retention rate is an important metric to measure overall client satisfaction and the general quality of our product and service offerings.

Recurring Fees From New Clients

We calculate recurring fees from new clients as the percentage of year-to-date recurring fees from all clients on our solutions which had not been on or used any of our solutions for a full year as of the start of the current fiscal year. We believe recurring fees from new clients is an important metric to measure the expansion of our existing client base as well as the growth in our client base. For the first six months of fiscal 2013 and fiscal 2014, our recurring fees from new clients was 37% for both periods. Our recurring fees from new clients for fiscal 2013 was 44%.

Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA

We disclose Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA because we use them to evaluate our performance, and we believe Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA assist in the comparison of our performance across reporting periods by excluding certain items that we do not believe are indicative of our core operating performance. We believe these metrics are used in the financial community, and we present it to enhance investors' understanding of our operating performance and cash flows.

Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA are not measurements of financial performance under generally accepted accounting principles in the United States, or GAAP, and you should not consider Adjusted Gross Profit as an alternative to

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gross profit Adjusted Recurring Gross Profit as an alternative to total recurring revenues, or Adjusted EBITDA as an alternative to net income (loss) or cash provided by operating activities, in each case as determined in accordance with GAAP. In addition, our definition of Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA may be different than the definition utilized for similarly-titled measures used by other companies.

We define Adjusted Gross Profit as gross profit before amortization of capitalized internal-use software and stock-based compensation expenses, if any. We define Adjusted Recurring Gross Profit as total recurring revenues after cost of recurring revenues and before amortization of capitalized internal-use software and stock-based compensation expenses, if any. We define Adjusted EBITDA as net income (loss) before interest expense (income), income tax expense (benefit), depreciation and amortization and stock-based compensation expenses. The table below sets forth our Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA for the periods presented.

	Year Ended June 30,			Six Months Ended December 31,	
	2011	2012	2013	2012	2013
	(in thousands)				
Adjusted Gross Profit	$ 19,962	$ 28,729	$ 40,695	$ 16,565	$ 22,438
Adjusted Recurring Gross Profit	$ 23,437	$ 33,147	$ 46,972	$ 19,565	$ 27,769
Adjusted EBITDA	$ 4,028	$ 7,660	$ 6,301	$ 1,400	$ 523

For a further discussion of Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA, including a reconciliation of Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA to GAAP, see "Summary Consolidated Financial Data."

Basis of Presentation

Revenues

Recurring Fees

We derive the majority of our revenues from recurring fees attributable to our cloud-based payroll and HCM software solutions. Recurring fees for each client generally include a base fee in addition to a fee based on the number of client employees and the number of products a client uses. We also charge fees attributable to our preparation of W-2 documents and annual required filings on behalf of our clients. Over the past three years, our clients have consistently had on average between 95 and 115 employees. We derive revenue from a client based on the solutions purchased by the client, the number of client employees as well as the amount, type and timing of services provided in respect of those client employees. As such, the number of client employees on our system is not a good indicator of our financial results in any period. Recurring fees attributable to our cloud-based payroll and HCM solutions accounted for approximately 92%, 93% and 92% of our total revenues during the years ended June 30, 2011, 2012 and 2013, respectively.

Our agreements with clients do not have a specified term and are generally cancellable by the client on 60 days' or less notice. Our agreements do not include general rights of return and do not provide clients with the right to take possession of the software supporting the services being provided. We recognize recurring fees in the period in which services are provided and when collection of fees is reasonably assured and the amount of fees is fixed or determinable.

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Interest Income on Funds Held for Clients

We earn interest income on funds held for clients. We collect funds for employee payroll payments and related taxes in advance of remittance to employees and taxing authorities. Prior to remittance to employees and taxing authorities, we earn interest on these funds through financial institutions with which we have automated clearing house, or ACH, arrangements.

Implementation Services and Other

Implementation services and other revenues primarily consist of implementation fees charged to new clients for professional services provided to implement and configure our payroll and HCM solutions. Implementations of our payroll solutions typically require only three to six weeks at which point the new client's payroll is first run using our solution, our implementation services are deemed completed, and we recognize the related revenue. We implement additional HCM products as requested by clients and leverage the data within our payroll solution to accelerate our implementation processes. Implementation services and other revenues may fluctuate significantly from quarter to quarter based on the number of new clients, pricing and the product utilization.

Cost of Revenues

Cost of Recurring Revenues

Costs of recurring revenues are generally expensed as incurred, and include costs to provide our payroll and other HCM solutions primarily consisting of employee-related expenses, including wages, bonuses and benefits, relating to the provision of ongoing client support, payroll tax filing and distribution of printed checks and other materials. These costs also include third-party reseller costs, delivery costs, computing costs and amortization of capitalized software costs, as well as bank fees associated with client fund transfers. We expect to realize cost efficiencies over the long term as our business scales, resulting in improved operating leverage and increased margins.

We capitalize a portion of our costs for software developed for internal use, which are then all amortized as a cost of recurring revenues. We amortized $2.2 million, $2.7 million and $3.1 million of capitalized internal-use software costs in fiscal 2011, 2012 and 2013, respectively.

Cost of Implementation Services and Other

Cost of implementation services and other consists almost entirely of employee-related expenses involved in the implementation of our payroll and other HCM solutions for new clients. Implementation costs are generally fixed in the short-term and exceed associated implementation revenue charged to each client. We intend to grow our business through acquisition of new clients, and doing so will require increased personnel to implement our solutions. Therefore our cost of implementation services and other is expected to increase in absolute dollars for the foreseeable future.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of employee-related expenses for our direct sales and marketing staff, including wages, commissions, bonuses and benefits, marketing expenses and other related costs. Commissions are primarily earned and recognized in the month when implementation is complete and the client first utilizes a service, typically by running its first payroll. Bonuses paid to sales staff for attainment of certain performance criteria are accrued in the fiscal year in which they are earned and are subsequently paid annually in the first fiscal quarter of the following year.

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We will seek to grow our number of clients for the foreseeable future and therefore our sales and marketing expense is expected to continue to increase in absolute dollars as we grow our sales organization and expand our marketing activities.

Research and Development

Research and development expenses consist primarily of employee-related expenses for our research and development and product management staff, including wages, benefits and bonuses. Additional expenses include costs related to the development, maintenance, quality assurance and testing of new technologies and ongoing refinement of our existing solutions. Research and development expenses, other than software development expenses qualifying for capitalization, are expensed as incurred.

We capitalize a portion of our development costs related to internal-use software. The timing of our capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development expenses for each of fiscal 2011, 2012 and 2013.

	Year Ended June 30,		
	2011	**2012**	**2013**
	(in thousands)		
Capitalized portion of research and development	$ 2,746	$ 3,716	$ 1,967
Expensed portion of research and development	1,565	1,788	6,825
Total research and development	$ 4,311	$ 5,504	$ 8,792

We expect to grow our research and development efforts as we continue to broaden our product offerings and extend our technological leadership by investing in the development of new technologies and introducing them to new and existing clients. We expect research and development expenses to continue to increase in absolute dollars but to vary as a percentage of total revenue on a period-to-period basis.

General and Administrative

General and administrative expenses consist primarily of other employee-related costs, including wages, benefits, stock-based compensation and bonuses for our administrative, finance, accounting, and human resources departments. Additional expenses include consulting and professional fees, insurance and other corporate expenses.

We expect our general and administrative expenses to increase in absolute dollars as a result of our preparation to become and operate as a public company. After the completion of this offering, these expenses will also include costs associated with compliance with the Sarbanes-Oxley Act and other regulations governing public companies, increased costs of directors' and officers' liability insurance and increased professional services expenses.

Other Income (Expense)

Other income (expense) consists primarily of interest income and expense. Interest income represents interest received on our cash and cash equivalents. Interest expense consists primarily of the interest incurred on outstanding borrowings under our note payable. We expect to use a portion of the net proceeds of this offering to retire amounts outstanding under our note payable.

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Results of Operations

The following table sets forth our statements of operations data for each of the periods indicated.

	Year Ended June 30,			Six Months Ended December 31,	
	2011	2012	2013	2012	2013
	(in thousands)				
Consolidated Statements of Operations Data:					
Revenues:					
Recurring fees	$ 36,443	$ 51,211	$ 71,309	$ 30,639	$ 42,883
Interest income on funds held for clients	1,100	1,263	1,459	625	731
Total recurring revenues	37,543	52,474	72,768	31,264	43,614
Implementation services and other	1,941	2,622	4,526	1,762	2,660
Total revenues	39,484	55,096	77,294	33,026	46,274
Cost of revenues:					
Recurring revenues	16,329	22,054	28,863	13,294	17,074
Implementation services and other	5,416	7,040	10,803	4,762	7,991
Total costs of revenues	21,745	29,094	39,666	18,056	25,065
Gross profit	17,739	26,002	37,628	14,970	21,209
Operating expenses:					
Sales and marketing	9,293	12,828	18,693	7,826	10,612
Research and development	1,565	1,788	6,825	3,054	4,303
General and administrative	6,868	8,618	12,079	5,794	9,139
Total operating expenses	17,726	23,234	37,597	16,674	24,054
Operating income (loss)	13	2,768	31	(1,704)	(2,845)
Other income (expense)	(179)	(196)	(16)	(9)	50
Income (loss) before income taxes	(166)	2,572	15	(1,713)	(2,795)
Income tax (benefit) expense	(36)	884	(602)	(681)	(1,239)
Net income (loss)	$ (130)	$ 1,688	$ 617	$ (1,032)	$ (1,556)

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The following table sets forth our statements of operations data as a percentage of revenue for each of the periods indicated.

	Year Ended June 30,			Six Months Ended December 31,	
	2011	2012	2013	2012	2013
Consolidated Statements of Operations Data:					
Revenues:					
Recurring fees	92%	93%	92%	93%	93%
Interest income on funds held for clients	3%	2%	2%	2%	1%
Total recurring revenues	95%	95%	94%	95%	94%
Implementation services and other	5%	5%	6%	5%	6%
Total revenues	100%	100%	100%	100%	100%
Cost of revenues:					
Recurring revenues	41%	40%	37%	40%	37%
Implementation services and other	14%	13%	14%	14%	17%
Total costs of revenues	55%	53%	51%	54%	54%
Gross profit	45%	47%	49%	46%	46%
Operating expenses:					
Sales and marketing	24%	23%	24%	24%	23%
Research and development	4%	3%	9%	9%	9%
General and administrative	17%	16%	16%	17%	20%
Total operating expenses	45%	42%	49%	50%	52%
Operating income (loss)	0%	5%	0%	(4)%	(6)%
Other income (expense)	(0)%	(0)%	0%	(0)%	0%
Income (loss) before income taxes	(0)%	5%	0%	(4)%	(6)%
Income tax (benefit) expense	(0)%	2%	(1)%	(2)%	(3)%
Net income (loss)	(0)%	3%	1%	(2)%	(3)%

Comparison of Six Months Ended December 31, 2012 and 2013

Revenues

	Six Months Ended December 31,		Change	
	2012	2013	$	%
Recurring fees	$ 30,639	$ 42,883	$ 12,244	40%
Percentage of total revenues	93%	93%		
Interest income on funds held for clients	$ 625	$ 731	$ 106	17%
Percentage of total revenues	2%	1%		
Implementation services and other	$ 1,762	$ 2,660	$ 898	51%
Percentage of total revenues	5%	6%		

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Recurring Fees

Recurring fees for the six months ended December 31, 2013 increased by $12.2 million, or 40%, to $42.8 million from $30.6 million for the six months ended December 31, 2012. Recurring fees increased primarily as a result of the continued growth of our client base, as well as increased revenue per client during fiscal 2013 and the first two quarters of fiscal 2014.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the six months ended December 31, 2013 was not materially different as compared to the six months ended December 31, 2012. The increase in interest income due to an increase in the amount of funds held for clients was partially offset by declining interest rates.

Implementation Services and Other

Implementation services and other revenue for the six months ended December 31, 2013 increased by $0.9 million, or 51%, to $2.7 million from $1.8 million for the six months ended December 31, 2012. Implementation services and other revenue increased primarily as a result of the continued growth of our new client base during the six months ended December 31, 2013.

Cost of Revenues

	Six Months Ended December 31,		Change	
	2012	2013	$	%
Cost of recurring revenues	$ 13,294	$ 17,074	$ 3,780	28%
Percentage of recurring revenues	43%	39%		
Recurring gross margin	57%	61%		
Cost of implementation services and other	$ 4,762	$ 7,991	$ 3,229	68%
Percentage of implementation services and other	270%	300%		
Implementation gross margin	(170)%	(200)%		

Cost of Recurring Revenues

Cost of recurring revenues for the six months ended December 31, 2013 increased by $3.8 million, or 28%, to $17.1 million from $13.3 million for the six months ended December 31, 2012. Cost of recurring revenues increased primarily as a result of the continued growth of our business, in particular $1.6 million in employee-related costs resulting from additional personnel necessary to service new and existing clients and $2.1 million of other processing-related fees. Recurring gross margin increased from 57% for the six months ended December 31, 2012 to 61% for the six months ended December 31, 2013, primarily due to a 3% reduction in amortization expense as a percentage of total recurring revenue and a 1% reduction in personnel-related and other costs as a percentage of total recurring revenue.

Cost of Implementation Services and Other

Cost of implementation services and other for the six months ended December 31, 2013 increased by $3.2 million, or 68%, to $8.0 million from $4.8 million for the six months ended December 31, 2012. Cost of implementation services and other increased primarily as a result of the expenses associated with the continued acquisition of new clients, in particular $2.9 million in employee-related costs resulting from additional personnel related to client implementation activities during the six months ended December 31, 2013.

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Operating Expenses

Sales and Marketing

	Six Months Ended December 31,		Change	
	2012	2013	$	%
Sales and marketing	$ 7,826	$ 10,612	$ 2,786	36%
Percentage of total revenues	24%	23%		

Sales and marketing expenses for the six months ended December 31, 2013 increased by $2.8 million, or 36%, to $10.6 million from $7.8 million for the six months ended December 31, 2012. The increase in sales and marketing expenses was primarily the result of $2.8 million of additional employee-related expenses incurred due to the expansion of our direct sales force by 54 personnel, which includes the addition of 25 sales lead generation personnel, whose function was previously outsourced and recorded in sales and marketing as lead generation expense rather than employee-related expense, in prior periods, and other miscellaneous sales and marketing related expenses.

Research and Development

	Six Months Ended December 31,		Change	
	2012	2013	$	%
Research and development	$ 3,054	$ 4,303	$ 1,249	41%
Percentage of total revenues	9%	9%		

Research and development for the six months ended December 31, 2013 increased by $1.2 million, or 41%, to $4.3 million from $3.1 million for the six months ended December 31, 2012. The increase in research and development expense was primarily as a result of $2.5 million in employee-related expenses related to 25 additional development personnel, partially offset by an increase of $1.3 million in capitalized internally-developed software costs for the six months ended December 31, 2013. The Company's emphasis is on hiring highly skilled technical personnel as well as expanding the management team in this area, resulting in higher average salaries and increased research and development expense per incremental employee for the six months ended December 31, 2013.

General and Administrative

	Six Months Ended December 31,		Change	
	2012	2013	$	%
General and administrative	$ 5,794	$ 9,139	$ 3,345	58%
Percentage of total revenues	17%	20%		

General and administrative expenses for the six months ended December 31, 2013 increased by $3.3 million, or 58%, to $9.1 million from $5.8 million for the six months ended December 31, 2012. The increase was primarily the result of $1.9 million of additional employee-related expenses related to 18 additional personnel within our administrative, finance, accounting and HR departments to support our continued growth, including the recruiting and hiring of senior level personnel to prepare for and assist in our efforts to become a public company, and $1.0 million of additional professional fees.

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Other Income (Expense)

	Six Months Ended December 31, 2012	Six Months Ended December 31, 2013	Change $	Change %
Other income (expense)	$ (9)	$ 50	$ 59	*
Percentage of total revenues	*	*		

* Not meaningful

Other expense for the six months ended December 31, 2013 decreased by $0.06 million as compared to the six months ended December 31, 2012. The decrease in other expense was primarily the result of reduced interest expense as we repaid approximately $1.6 million of debt during the year ended June 30, 2013 in accordance with the terms of our outstanding promissory notes and note payable.

Income Tax (Benefit) Expense

	Six Months Ended December 31, 2012	Six Months Ended December 31, 2013	Change $	Change %
Income tax (benefit) expense	(681)	(1,239)	(558)	82%
Percentage of total revenues	(2)%	(3)%		

Income tax benefit for the six months ended December 31, 2013 increased by $0.6 million, or 82% as compared to the six months ended December 31, 2012. The increase in income tax benefit was primarily the result of research and development tax credits of $0.4 million realized during the six months ended December 31, 2013. We did not record any research and development tax credits for the six months ended December 31, 2012 due to the fact that the enabling statute was not enacted until January 2013.

Comparison of Fiscal Years Ended June 30, 2011, 2012 and 2013

Revenues

	Year Ended June 30, 2011	Year Ended June 30, 2012	Year Ended June 30, 2013	Change from 2011 to 2012 $	Change from 2011 to 2012 %	Change from 2012 to 2013 $	Change from 2012 to 2013 %
Recurring fees	$ 36,443	$ 51,211	$ 71,309	$ 14,768	41%	$ 20,098	39%
Percentage of total revenues	92%	93%	92%				
Interest income on funds held for clients	$ 1,100	$ 1,263	$ 1,459	$ 163	15%	$ 196	16%
Percentage of total revenues	3%	2%	2%				
Implementation services and other	$ 1,941	$ 2,622	$ 4,526	$ 681	35%	$ 1,904	73%
Percentage of total revenues	5%	5%	6%				

Recurring Fees

Recurring fees for the year ended June 30, 2013 increased by $20.1 million, or 39%, to $71.3 million from $51.2 million for the year ended June 30, 2012. Recurring fees increased primarily as a result of the continued growth of our client base in fiscal 2013, as well as increased

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revenue per client. Our client count at June 30, 2013 increased by 25% to approximately 6,850 from approximately 5,500 at June 30, 2012.

Recurring fees for the year ended June 30, 2012 increased by $14.8 million, or 41%, to $51.2 million from $36.4 million for the year ended June 30, 2011. Recurring fees increased primarily as a result of the continued growth of our client base in fiscal 2012 and the full year impact of new clients added throughout fiscal 2011. Our client count at June 30, 2012 increased by 25% to approximately 5,500 from approximately 4,400 at June 30, 2011.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the year ended June 30, 2013 increased by $0.2 million, or 16%, to $1.5 million from $1.3 million for the year ended June 30, 2012. Interest income increased primarily as a result of an increased average daily balance of funds held due to the addition of new clients to our client base during fiscal 2013.

Interest income on funds held for clients for the year ended June 30, 2012 increased by $0.2 million, or 15%, to $1.3 million from $1.1 million for the year ended June 30, 2011. Interest income increased primarily as a result of an increased average daily balance of funds held due to the addition of new clients to our client base during fiscal 2012.

Implementation Services and Other

Implementation services and other revenue for the year ended June 30, 2013 increased by $1.9 million, or 73%, to $4.5 million from $2.6 million for the year ended June 30, 2012. Implementation services and other revenue increased primarily as a result of the continued growth of our new client base during fiscal 2013.

Implementation services and other revenue for the year ended June 30, 2012 increased by $0.7 million, or 35%, to $2.6 million from $1.9 million for the year ended June 30, 2011. Implementation services and other revenue increased primarily as a result of the continued growth of our new client base during fiscal 2012.

Cost of Revenues

	Year Ended June 30,			Change from 2011 to 2012		Change from 2012 to 2013	
	2011	2012	2013	$	%	$	%
Cost of recurring revenues	$ 16,329	$ 22,054	$ 28,863	$ 5,725	35%	$ 6,809	31%
Percentage of recurring revenues	43%	42%	40%				
Recurring gross margin	57%	58%	60%				
Cost of implementation services and other	$ 5,416	$ 7,040	$ 10,803	$ 1,624	30%	$ 3,763	53%
Percentage of implementation services and other	279%	268%	239%				
Implementation gross margin	(179)%	(168)%	(139)%				

Cost of Recurring Revenues

Cost of recurring revenues for the year ended June 30, 2013 increased by $6.8 million, or 31%, to $28.9 million from $22.1 million for the year ended June 30, 2012. Cost of recurring revenues increased primarily as a result of the continued growth of our business, in particular $2.9 million in additional employee-related costs resulting from additional personnel to provide services to new and existing clients, $1.2 million of additional costs attributable to resellers, and $2.4 million other

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processing-related fees. Recurring gross margin increased by 2% from 58% in fiscal 2012 to 60% in fiscal 2013 primarily due to a 1% reduction in amortization expense as a percentage of total recurring revenue and a 1% reduction in personnel-related and other costs as a percentage of total recurring revenue.

Cost of recurring revenues for the year ended June 30, 2012 increased by $5.8 million, or 35%, to $22.1 million from $16.3 million for the year ended June 30, 2011. Cost of recurring revenues increased primarily as a result of the continued growth of our business, in particular $2.4 million in employee-related costs resulting from additional personnel to provide client service to new and existing clients, $1.1 million of additional costs attributable to resellers, and $1.7 million of other processing-related fees. Recurring gross margin increased by 1% from 57% in fiscal 2011 to 58% in fiscal 2012 primarily due to a reduction in amortization expense as a percentage of total recurring revenue and a reduction in personnel-related and other costs as a percentage of total recurring revenue.

Cost of Implementation Services and Other

Cost of implementation services and other for the year ended June 30, 2013 increased by $3.8 million, or 53%, to $10.8 million from $7.0 million for the year ended June 30, 2012. Cost of implementation services and other increased primarily due to an increase in new clients during fiscal 2013, and a corresponding increase of $3.0 million in employee-related and other costs to implement our solutions for new clients.

Cost of implementation services and other for the year ended June 30, 2012 increased by $1.6 million, or 30%, to $7.0 million from $5.4 million for the year ended June 30, 2011. Cost of implementation services and other increased primarily due to an increase in new clients during fiscal 2012, and a corresponding increase of $1.4 million in employee-related and other costs to implement our solutions for new clients.

Operating Expenses

Sales and Marketing

	Year Ended June 30,			Change from 2011 to 2012		Change from 2012 to 2013	
	2011	2012	2013	$	%	$	%
Sales and marketing	$ 9,293	$ 12,828	$ 18,693	$ 3,535	38%	$ 5,865	46%
Percentage of total revenues	24%	23%	24%				

Sales and marketing expenses for the year ended June 30, 2013 increased by $5.9 million, or 46%, to $18.7 million from $12.8 million for the year ended June 30, 2012. The increase in sales and marketing expenses in fiscal 2013 was primarily the result of $5.2 million of additional employee-related costs from the expansion of our direct sales force by 23 personnel, the hiring of additional sales management and administrative personnel to support our growing business and other miscellaneous sales and marketing related expenses.

Sales and marketing expenses for the year ended June 30, 2012 increased by $3.5 million, or 38%, to $12.8 million from $9.3 million for the year ended June 30, 2011. The increase in sales and marketing expenses in fiscal 2012 was primarily a result of $3.3 million of additional employee-related costs from the expansion of our direct sales force by 23 personnel and other miscellaneous sales and marketing related expenses.

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Research and Development

	Year Ended June 30,			Change from 2011 to 2012		Change from 2012 to 2013	
	2011	2012	2013	$	%	$	%
Research and development	$ 1,565	$ 1,788	$ 6,825	$ 223	14%	$ 5,037	282%
Percentage of total revenues	4%	3%	9%				

Research and development for the year ended June 30, 2013 increased by $5.0 million, or 282%, to $6.8 million from $1.8 million for the year ended June 30, 2012. Research and development costs increased in fiscal 2013 primarily due to $3.3 million of additional employee-related expenses related to 39 additional development personnel. Additionally, in fiscal 2013 one of our core payroll applications transitioned beyond the development stage into the maintenance and incremental improvements stage, and therefore our capitalized internally developed software costs decreased by $1.7 million in fiscal 2013, as compared to fiscal 2012.

Research and development for the year ended June 30, 2012 increased by $0.2 million, or 14%, to $1.8 million from $1.6 million for the year ended June 30, 2011. Research and development costs increased in fiscal 2012 primarily due to $1.2 million of additional employee-related expenses related to 16 additional development personnel, offset by $1.0 million of additional software capitalization as compared to fiscal 2011. We amortized $2.2 million, $2.7 million, and $3.1 million of capitalized research and development costs in fiscal 2011, 2012 and 2013, respectively.

General and Administrative

	Year Ended June 30,			Change from 2011 to 2012		Change from 2012 to 2013	
	2011	2012	2013	$	%	$	%
General and administrative	$ 6,868	$ 8,618	$ 12,079	$ 1,750	26%	$ 3,461	40%
Percentage of total revenues	17%	16%	16%				

General and administrative expenses for the year ended June 30, 2013 increased by $3.5 million, or 40%, to $12.1 million from $8.6 million for the year ended June 30, 2012. General and administrative expenses increased primarily as a result of $2.2 million of additional employee-related expenses relating to 17 additional personnel, as well as $0.7 million of increased occupancy costs incurred as a result of our requirement for additional office space.

General and administrative expenses for the year ended June 30, 2012 increased by $1.7 million, or 26%, to $8.6 million from $6.9 million for the year ended June 30, 2011. General and administrative expenses increased primarily as a result of $1.0 million of employee-related expenses relating to 17 additional personnel, as well as $0.2 million of professional service costs, and $0.2 million of increased occupancy costs incurred as a result of our requirement for additional office space.

Other Income (Expense)

	Year Ended June 30,			Change from 2011 to 2012		Change from 2012 to 2013	
	2011	2012	2013	$	%	$	%
Other income (expense)	$ (179)	$ (196)	$ (16)	$ (17)	9%	$ 180	*
Percentage of total revenues	*	*	*				

* Not Meaningful

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Other income (expense) for the year ended June 30, 2013 increased by $0.2 million as compared to the year ended June 30, 2012. Other expense for the year ended June 30, 2013 primarily consists of interest expense incurred on our note payable and other debt, which was reduced as compared to the year ended June 30, 2012 due to increased principal payments in fiscal 2013.

Other income (expense) for the year ended June 30, 2012 decreased by $0.02 million, or 9% as compared to the year ended June 30, 2011. Other expense for the year ended June 30, 2012 primarily consists of interest expense incurred on our note payable and other debt.

Income Tax (Benefit) Expense

	Year Ended June 30,			Change from 2011 to 2012		Change from 2012 to 2013	
	2011	2012	2013	$	%	$	%
Effective tax rate	(22)%	34%	*				
Income tax (benefit) expense	(36)	884	(602)	920	*	(1,486)	*
Percentage of total revenues	*	2%	(1)%				

* Not Meaningful

Income tax (benefit) expense for the year ended June 30, 2013 decreased by $1.5 million, as compared to the year ended June 30, 2012. The decrease in income tax provision was primarily the result of income before taxes of $0 for the year ended June 30, 2013, as compared to income before taxes of $2.6 million for the year ended June 30, 2012. Additionally, our income tax provision for the year ended June 30, 2013 was reduced by $0.7 million due to the application of various research and development tax credits.

Income tax (benefit) expense for the year ended June 30, 2012 increased by $0.9 million, as compared to the year ended June 30, 2011. The increase in income tax provision was primarily the result of income before taxes of $2.6 million for the year ended June 30, 2012 as compared to loss before taxes of $0.2 million for the year ended June 30, 2011. The increase in income tax provision was partially offset by $0.2 million of research and development tax credits realized during the year ended June 30, 2012.

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly statements of income data for the last six quarters, as well as the percentage of total revenue for each line item shown. The financial information presented for the interim periods has been prepared on the same basis as the audited consolidated financial statements included elsewhere in this prospectus and, in the opinion of management, includes all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation of the results of income for such periods. This data should be read in conjunction with the audited consolidated financial statements and the related notes included

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elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results to be expected for any future period.

	Three Months Ended					
	September 30, 2012	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
	(In thousands)					
Revenues:						
Recurring fees	$ 14,721	$ 15,918	$ 21,824	$ 18,846	$ 20,738	$ 22,145
Interest income on funds held for clients	302	323	447	387	353	378
Total recurring revenues	15,023	16,241	22,271	19,233	21,091	22,523
Implementation services and other	803	959	1,735	1,029	1,278	1,382
Total revenues	15,826	17,200	24,006	20,262	22,369	23,905
Costs of revenues:						
Recurring revenues	6,386	6,908	7,896	7,673	7,993	9,081
Implementation services and other	2,133	2,629	2,838	3,203	3,754	4,237
Total cost of revenues	8,519	9,537	10,734	10,876	11,747	13,318
Gross profit	7,307	7,663	13,272	9,386	10,622	10,587
Operating expenses:						
Sales and marketing	3,878	3,948	5,888	4,979	5,189	5,423
Research and development	1,357	1,697	1,852	1,919	1,956	2,347
General and administrative	2,688	3,106	2,928	3,357	3,911	5,228
Total operating expenses	7,923	8,751	10,668	10,255	11,056	12,998
Operating income (loss)	(616)	(1,088)	2,604	(869)	(434)	(2,411)
Other income (expense)	(42)	33	(8)	1	28	22
Income (loss) before income taxes	(658)	(1,055)	2,596	(868)	(406)	(2,389)
Income tax (benefit) expense	(253)	(428)	575	(496)	(362)	(877)
Net income (loss)	$ (405)	$ (627)	$ 2,021	$ (372)	$ (44)	$ (1,512)

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	Three Months Ended					
	September 30, 2012	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Revenues:						
Recurring fees	93%	92%	91%	93%	93%	93%
Interest income on funds held for clients	2%	2%	2%	2%	2%	2%
Total recurring revenues	95%	94%	93%	95%	95%	95%
Implementation services and other	5%	6%	7%	5%	5%	5%
Total revenues	100%	100%	100%	100%	100%	100%
Costs of revenues:						
Recurring revenues	40%	40%	33%	38%	36%	38%
Implementation services and other	13%	15%	12%	16%	17%	18%
Total cost of revenues	53%	55%	45%	54%	53%	56%
Gross profit	47%	45%	55%	46%	47%	44%
Operating expenses:						
Sales and marketing	24%	23%	25%	25%	23%	23%
Research and development	9%	10%	8%	9%	9%	10%
General and administrative	17%	18%	12%	17%	17%	22%
Total operating expenses	50%	51%	45%	51%	49%	55%
Operating income (loss)	(3)%	(6)%	10%	(5)%	(2)%	(11)%
Other income (expense)	0%	0%	0%	0%	0%	0%
Income (loss) before income taxes	(3)%	(6)%	10%	(5)%	(2)%	(11)%
Income tax (benefit) expense	(2)%	(2)%	2%	(3)%	(2)%	(4)%
Net income (loss)	(1)%	(4)%	8%	(2)%	0%	(7)%

Quarterly Trends

Our overall operating results fluctuate from quarter to quarter as a result of a variety of factors, some of which are outside of our control. Our historical results should not be considered a reliable indicator of our future results of operations.

Our revenues and costs have increased in most of the quarters presented as a result of an increase in our client base. We experience fluctuations in revenues and related costs on a seasonal basis, which are primarily seen in the quarter ended March 31. Specifically, our recurring revenue and costs are positively impacted in the quarter ended March 31 as a result of our preparation of W-2 documents for our clients' employees in advance of tax filing requirements, which generally means that our quarter ended June 30 has been lower than the prior quarter. Our interest income earned on funds held for clients is also positively impacted during the quarter ended March 31 as a result of our increased collection of funds held for clients. Certain payroll taxes are primarily collected during the quarter ended March 31 and subsequently remitted.

Implementation revenues are also typically higher during the quarter ended March 31 as many of our new clients elect to implement our services following a calendar year-end. Implementation gross profit varies on a quarterly basis as costs are generally fixed in the near-term, while revenues vary based on the number of new client implementations.

Sales and marketing expenses increased for most of the quarters presented, as we incurred additional personnel expenses due to increased hiring and commissions as a result of continued expansion of our client base. Commissions can vary on a quarterly basis based on the number of new client implementations. We expect sales and marketing expenses to increase in absolute dollar terms in future quarters as we continue to grow our business.

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Research and development expenses increased in absolute dollar terms in each of the quarters presented, primarily as a result of additional personnel-related expenses. We expect to continue to increase our research and development efforts as we continue to grow our business and we expect these expenses to continue to be among the most significant components of our operating expenses.

General and administrative expenses increased in absolute dollar terms in most of the quarters presented, primarily as a result of personnel-related costs and professional fees to support our continued growth. We expect our general and administrative expenses to increase in future quarters in absolute terms as a result of our preparation to become and operate as a public company.

Critical Accounting Policies and Estimates

In preparing our financial statements and accounting for the underlying transactions and balances in accordance with GAAP, we apply various accounting policies that require our management to make estimates, judgments and assumptions that affect the amounts reported in our financial statements. We consider the policies discussed below as critical to understanding our financial statements, as their application places the most significant demands on management's judgment. Management bases its estimates, judgments and assumptions on historical experience, current economic and industry conditions and on various other factors deemed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because the use of estimates is an integral part of the financial reporting process, actual results could differ and such differences could be material.

Revenue Recognition

We derive revenues predominantly from recurring revenues associated with our cloud-based payroll and HCM software applications and one-time service fees for implementation of our solutions. Our agreements with clients do not include general rights of return and do not provide clients with the right to take possession of the software supporting the services being provided. As such, revenue is recognized as services are performed.

We recognize revenue when all of the following criteria are achieved:

- There is persuasive evidence of an agreement;
- The service has been provided to the client;
- Collection of the fees is reasonably assured; and
- The amount of fees to be paid by the client is fixed or determinable.

For arrangements with multiple-elements, we recognize revenues in accordance with Accounting Standards Update (ASU) 2009-13, *Multiple-Deliverable Revenue Arrangements*. For each agreement, we evaluate whether the individual deliverables qualify as separate units of accounting. If one or more of the deliverables does not have standalone value upon delivery, the deliverables that do not have standalone value are generally combined and treated as a single unit of accounting. Revenue for arrangements treated as a single unit of accounting is generally recognized within the same month that the services are rendered given that the agreements are cancellable with 60 days' or less notice.

In determining whether revenues from implementation services can be accounted for separately from recurring revenues, we consider the nature of the implementation services and the availability of the implementation services from other vendors. We established standalone value for

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implementation primarily due to the number of partners that perform these services and account for such implementation services separate from the recurring revenues.

If we determine that the services have standalone value upon delivery, we account for each separately and revenues are recognized as the services are delivered with allocation of consideration based on the relative selling price method. That method requires the selling price of each element in a multiple deliverable arrangement to be based on, in descending order: (i) vendor-specific objective evidence of fair value, or VSOE, (ii) third-party evidence of fair value, or TPE, or (iii) management's best estimate of the selling price, or BESP.

We are not able to demonstrate VSOE of selling price with respect to our recurring fees paid for our solutions because the deliverables are sold across an insufficiently narrow range of prices on a stand-alone basis. We are also not able to demonstrate TPE for subscription fees because no third-party offerings are reasonably comparable to our product offerings. We thus establish BESP by service offering, requiring the use of significant estimates and judgment. To determine BESP, we consider numerous factors, including the nature of the deliverables themselves, the geography for the sale, internal costs, and pricing and discounting practices utilized by our direct sales force. Arrangement consideration is allocated to each deliverable based on the established BESP and subject to the limitation that because the arrangements are cancellable with 60 days' or less notice, recurring revenue is not allocated to any deliverable until the consideration has been earned, typically with each payroll cycle or monthly, depending on the service.

Capitalized Internal-Use Software Costs

We capitalize employee-related expenses, external consultant costs and other related costs associated with software developed for internal use. Internal-use software development costs are capitalized when application development begins, when we determine it is probable that the project will be completed and the software will be used as intended. Capitalization of these costs ceases once the project transitions beyond the development stage into the maintenance and incremental improvements stage.

Internal-use software is amortized on a straight-line basis over 18 to 24 months. Management evaluates the useful lives of these assets on an annual basis and tests for impairments whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments to capitalized software developed for internal use during the six months ended December 31, 2013, or the years ended June 30, 2011, 2012 or 2013. We capitalized $1.9 million, $2.7 million, $3.7 million and $2.0 million of software development costs and amortized $1.2 million, $2.2 million, $2.7 million and $3.1 million of capitalized research and development costs for the six months ended December 31, 2013, and the years ended June 30, 2011, 2012 and 2013, respectively. In fiscal 2013, one of our solutions transitioned beyond the development stage into the maintenance and incremental improvements stage, which resulted in lower capitalized internally-developed software costs in fiscal 2013 as compared to fiscal 2012.

Income Taxes

We account for federal income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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Deferred tax assets may be reduced by a valuation allowance to the extent we determine it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents the best estimate of those future events. Changes in current estimates, due to unanticipated events or otherwise, could have an adverse impact on our financial condition and results of operations.

In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weight given to positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. Cumulative losses in recent years are significant negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Stock-Based Compensation

We have historically maintained one stock-based compensation plan, our 2008 Equity Incentive Plan, or the 2008 Plan, under which we have issued options to purchase shares of our common stock and grants of restricted stock awards to employees, officers, directors and consultants. As of December 31, 2013, options to purchase 3,563,587 shares of our common stock were outstanding, 403,800 shares of restricted common stock were outstanding and 443,770 shares of our common stock were reserved for future grant under the 2008 Plan.

In February 2014, our board of directors and stockholders approved the 2014 Equity Incentive Plan pursuant to which we may grant stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance awards and cash-based and other stock awards. We will not grant any additional awards under our 2008 Plan, though our 2008 Plan will continue to govern the terms and conditions of all outstanding equity awards granted under the 2008 Plan.

The following table presents data related to stock options granted on the dates indicated:

	June 1, 2011	Aug. 21, 2012	Sept. 17, 2012	July 8, 2013	Aug. 26, 2013
Options granted	686,500	1,340,000	50,000	700,000	75,000
Fair value of stock	$ 1.52	$ 3.25	$ 3.25	$ 4.69	$ 4.69
Exercise price	$ 1.52	$ 3.25	$ 3.25	$ 4.69	$ 4.69
Fair value of option	$ 0.47	$ 0.81	$ 0.81	$ 1.14	$ 1.14

Equity-classified awards are measured at the grant date fair value of the award and expense is recognized, net of assumed forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award. We estimate grant date fair value using the Black-Scholes Option-Pricing Model, or Black-Scholes, which requires the use of certain subjective assumptions. Below is a table of the key weighted-average assumptions used in the option

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valuation calculation for options issued on the dates indicated. We did not grant stock options in fiscal 2012.

	June 1, 2011	Aug. 21, 2012	Sept. 17, 2012	July 8, 2013	Aug. 26, 2013
Valuation assumptions:					
Weighted average expected dividend yield					
Weighted average expected volatility	31.0%	30.7%	30.7%		