

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Index to Consolidated Financial Statements](#)

[Table of Contents](#)

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

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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.

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.

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.

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.

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

Accelerated filer

Non-accelerated filer
(do not check if a
smaller reporting company)

Smaller reporting company

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.

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.

	<u>Per Share</u>	<u>Total</u>
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.



We are a cloud-based provider of payroll and HCM software solutions purpose-built for medium-sized organizations.



TABLE OF CONTENTS

	<u>Page</u>
Prospectus Summary	1
Risk Factors	11
Special Note Regarding Forward-Looking Statements	34
Industry and Market Data	36
Use of Proceeds	37
Dividend Policy	38
Capitalization	39
Dilution	41
Selected Consolidated Financial Data	43
Management's Discussion and Analysis of Financial Condition and Results of Operations	45
Business	73
Management	88
Executive Compensation	97
Certain Relationships and Related Party Transactions	106
Principal and Selling Stockholders	110
Description of Capital Stock	112
Shares Eligible for Future Sale	117
Material U.S. Federal Tax Consequences to Non-U.S. Holders Of Common Stock	120
Underwriting	124
Legal Matters	132
Experts	132
Where You Can Find Additional Information	132
Index to Consolidated Financial Statements	F-1

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.

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 workforce 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."

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

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.

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.

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.

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	<u>37,543</u>	<u>52,474</u>	<u>72,768</u>	<u>31,264</u>	<u>43,614</u>
Implementation services and other	1,941	2,622	4,526	1,762	2,660
Total revenues	<u>39,484</u>	<u>55,096</u>	<u>77,294</u>	<u>33,026</u>	<u>46,274</u>
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	<u>21,745</u>	<u>29,094</u>	<u>39,666</u>	<u>18,056</u>	<u>25,065</u>
Gross profit	<u>17,739</u>	<u>26,002</u>	<u>37,628</u>	<u>14,970</u>	<u>21,209</u>
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	<u>17,726</u>	<u>23,234</u>	<u>37,597</u>	<u>16,674</u>	<u>24,054</u>
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)	<u>\$ (130)</u>	<u>\$ 1,688</u>	<u>\$ 617</u>	<u>\$ (1,032)</u>	<u>\$ (1,556)</u>
Net income (loss) attributable to common stockholders	<u>\$ (774)</u>	<u>\$ 998</u>	<u>\$ (2,291)</u>	<u>\$ (2,486)</u>	<u>\$ (3,118)</u>
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

	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

- 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	<u>\$ 19,962</u>	<u>\$ 28,729</u>	<u>\$ 40,695</u>	<u>\$ 16,565</u>	<u>\$ 22,438</u>

	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	<u>\$ 23,437</u>	<u>\$ 33,147</u>	<u>\$ 46,972</u>	<u>\$ 19,565</u>	<u>\$ 27,769</u>

	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	<u>\$ 4,028</u>	<u>\$ 7,660</u>	<u>\$ 6,301</u>	<u>\$ 1,400</u>	<u>\$ 523</u>

- (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.

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.

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.

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,

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

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

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.

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

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.

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.

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

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

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).

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.

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.

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.

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.

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

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.

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.

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.

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.

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.

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.

	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.

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)

	Year Ended June 30,			Six Months Ended December 31,	
	2011	2012	2013	2012	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,			As of December 31,	
	2011	2012	2013	2012	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)

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,

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

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.

Client Count	Year Ended June 30,		
	2011	2012	2013
	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

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.

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.

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.

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)

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%		

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.

Operating Expenses*Sales and Marketing*

	Six Months Ended December 31,		Change	
	2012	2013	\$	%
	Sales and marketing	\$ 7,826	\$ 10,612	\$ 2,786
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
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
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.

Other Income (Expense)

	Six Months Ended December 31,		Change	
	2012	2013	\$	%
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,		Change	
	2012	2013	\$	%
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,			Change from 2011 to 2012		Change from 2012 to 2013	
	2011	2012	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

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

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.

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

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

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)

	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.

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

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.

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

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%	29.5%	29.5%
Weighted average expected term (years)	5.0	4.0	4.0	4.0	4.0
Weighted average risk-free interest rate	2.0%	0.6%	0.6%	0.5%	0.5%

We use a dividend yield assumption of zero as we have not paid regular cash dividends on our common stock and presently have no intention of paying any such cash dividends. Since our shares are not publicly traded, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. We calculate the expected term using company specific historical data, such as employee option exercise and employee post-vesting departure behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant.

Stock-based compensation expense was \$0.3 million, \$0.2 million, \$0.2 million and \$0.5 million, for the six months ended December 31, 2013 and the years ended June 30, 2011, 2012 and 2013, respectively. If factors change and we employ different assumptions, stock-based compensation expense may differ from what we have recorded in the past. If there is a difference between the assumptions used in determining stock-based compensation expense and the actual factors which become known over time, we may change the input factors used in determining stock-based compensation costs for future grants. These changes, if any, may adversely impact our results of operations in the period such changes are made. We expect to continue to grant stock options in the future, and to the extent that we do, our actual stock-based compensation expense recognized in future periods will likely increase.

One significant factor in determining the fair value of our options, when using Black-Scholes, is the fair value of the common stock underlying those stock options. We have been a private company with no active public market for our common stock. Therefore, the fair value of the common stock underlying our stock options was determined by our board of directors, which considered in making its determination of fair value a variety of factors including contemporaneous periodic valuation studies from an independent and unrelated third-party valuation firm.

Third-Party Valuation Methodology

In performing its analysis, the valuation firm engaged in discussions with management, analyzed historical and forecasted financial statements, and reviewed our corporate documents. The valuation consultant utilized the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The valuation study was prepared using a combination of four generally accepted approaches to determining the fair market value of a business: the discounted cash flows, or DCF, method, the guideline public company method, the prior transaction method and the market transactions method. The discounted cash flows method forecasted future cash flows utilizing a terminal value based on our expectation of long-term growth to arrive at a valuation. The guideline public company method utilizes a market approach which estimates the fair value of a company by applying to that company the market multiples of publicly-traded companies to arrive at a valuation. The prior transaction method looks to recent arms-length transactions in a company's capital stock to arrive at a valuation. The market transactions method utilizes a market approach which estimates

the fair value of a company by applying to that company the market multiples of publicly-traded and private companies to arrive at a valuation.

Fiscal 2011

The independent third-party valuation as of April 30, 2011 was performed using the DCF method and the guideline public company method. The valuation firm considered our nature and history, the condition and outlook of the industry in which we operate, our financial condition, our current operations and earning capacity, our relative position within the industry in which we operate, prior transactions involving our stock, our strategic direction and management and our goodwill and intangible value. The valuation firm took into account our financial statements for fiscal 2006 through 2010 as well as our trailing twelve month, or TTM, financial performance for the 12 months ended April 30, 2011.

In applying the guideline public company method, the valuation firm analyzed the prices that investors are willing to pay for the publicly-traded common stock of companies that are comparable to us. The valuation firm then calculated total market value of invested capital multiples based on each of (i) TTM earnings before interest, taxes, depreciation and amortization, (ii) TTM earnings before interest and taxes, (iii) TTM net sales and (iv) book value. The valuation firm applied the average of the public companies' TTM net sales multiple to our TTM net sales. The valuation firm then adjusted the resulting value downward by 30% to reflect our smaller size, limited access to capital, historical and future growth expectations, and differences in liquidity, profitability and leverage among the guideline companies.

In applying the DCF method, the valuation firm analyzed financial projections prepared by our management for the remainder of fiscal 2011 and fiscal 2012 through 2015. The valuation firm calculated our net cash flows to invested capital by taking our debt-free net income, as estimated by management, adding depreciation expenses and subtracting both capital expenditures, as estimated by management, and incremental working capital needs, which were estimated based on a review of an industry average. For the terminal year, the valuation firm applied a revenue multiple, calculated using the guideline public company method. A discount rate of 30% was then applied. To determine the discount rate, the valuation firm reviewed published investment hurdle rates typically required by institutional investors for companies of comparable size and risk.

Our value was then allocated between our shares of Series A preferred stock and our shares of common stock using the option pricing equity allocation method, using Black-Scholes. Black-Scholes considers the intrinsic value and time value of stock options. In utilizing Black-Scholes, our volatility was estimated at 31% which was based on the average volatility of the guideline public companies over a five-year period. The assumed time to expiration was five years, which was based on the estimated timing of a potential liquidity event. Finally, the valuation firm applied a marketability discount of 20% to reflect the lack of an active market in shares of our common stock, which resulted in a fair market value of \$1.52 per share.

Our board of directors considered this third-party valuation and the other factors discussed above in determining that the fair market value of our common stock was \$1.52 on June 1, 2011.

Fiscal 2013

The independent third-party valuation as of June 30, 2012 was performed using the DCF method, the guideline public company method and the prior transaction method. The valuation firm considered our nature and history, the condition and outlook of the industry in which we operate, our financial condition, our current operations and earning capacity, our relative position within the industry in which we operate, prior transactions involving our stock, our strategic direction and

management and our goodwill and intangible value. The valuation firm took into account our financial statements for fiscal 2007 through 2012.

In applying the guideline public company method, the valuation firm analyzed the prices that investors are willing to pay for the publicly-traded common stock of companies that are comparable to us. The valuation firm then calculated total market value of invested capital multiples based on each of (i) TTM earnings before interest, taxes, depreciation and amortization, (ii) TTM earnings before interest and taxes, (iii) TTM net sales and (iv) book value. The valuation firm applied the average of the public companies' TTM net sales multiple to our TTM net sales. The valuation firm then adjusted the resulting value downward by 35% to reflect our smaller size, limited access to capital, historical and future growth expectations, and differences in liquidity, profitability and leverage among the guideline companies.

In applying the DCF method, the valuation firm analyzed financial projections prepared by our management for fiscal 2013 through 2016. The valuation firm calculated our net cash flows to invested capital by taking our debt-free net income, as estimated by management, adding depreciation expenses and subtracting both capital expenditures, as estimated by management, and incremental working capital needs, which were estimated based on a review of an industry average. For the terminal year, the valuation firm applied a revenue multiple, calculated using the guideline public company method. A discount rate of 35% was then applied. To determine the discount rate, the valuation firm reviewed published investment hurdle rates typically required by institutional investors for companies of comparable size and risk. As part of the valuation process, we provided a multi-year projection which increased our performance expectations. The independent valuation firm determined that this change in performance expectations warranted a change in the discount rate from the April 30, 2011 valuation reflective of return expectations. The 35% discount rate reflected a 5% increase to the discount rate applied in the DCF analysis conducted as of April 30, 2011.

In applying the prior transaction method, the valuation firm reviewed three arms-length transaction in our capital stock. The most recent transaction occurred on June 28, 2012, two days prior to the date of the valuation, in which we sold shares of Series B preferred stock for approximately \$3.25 per share.

Our value was then allocated between our shares of Series A preferred stock, our shares of Series B preferred stock and our shares of common stock using the option pricing equity allocation method, using Black-Scholes. In utilizing the Black-Scholes method, our volatility was estimated at 31% which was based on the average volatility of the guideline public companies over one-year, two-year and five-year period. The assumed time to expiration was three years, which was based on the estimated timing of a potential liquidity event. Finally, the valuation firm applied a marketability discount of 10% to reflect the lack of an active market in shares of our common stock, which resulted in a fair market value of \$3.25 per share.

Our board of directors considered this third party valuation and the other factors discussed above in determining that the fair market value of our common stock was \$3.25 on August 21, 2012 and September 17, 2012.

Fiscal 2014

The independent third-party valuation as of May 31, 2013 was performed using the DCF method, the guideline public company method and the market transactions method. The valuation firm considered our nature and history, the condition and outlook of the industry in which we operate, the book value of our stock and our financial condition, the earning capacity of our business, the dividend-paying capacity of our business, prior transactions involving our stock, the market price of public traded stock of companies engage in the same or a similar line of business and our goodwill and intangible value. The valuation firm took into account our financial statements

for fiscal 2009 through 2012, as well as interim financial statements for the eleven months ended May 31, 2013 and May 31, 2012.

In applying the guideline public company method, the valuation firm analyzed the prices that investors are willing to pay for the publicly-traded common stock of companies that are comparable to us. The valuation firm then calculated total market value of invested capital multiples based on TTM earnings before interest, taxes, depreciation and amortization and TTM revenues. The valuation firm considered our smaller size, limited access to capital, historical and future growth expectations, and differences in liquidity, profitability and leverage among the guideline companies before selecting a TTM multiple that was slightly above the average of the TTM revenues multiples for the companies determined to be most comparable to us.

In applying the DCF method, the valuation firm analyzed financial projections prepared by our management for a five year period. The valuation firm calculated our net cash flows to invested capital by taking our debt-free net income, as estimated by management, adding depreciation expenses and subtracting both capital expenditures, as estimated by management, and incremental working capital needs, which were estimated based on a review of an industry average. For the terminal year, the valuation firm applied a revenue multiple, calculated using the guideline public company method. A discount rate of 35% was then applied. To determine the discount rate, the valuation firm reviewed published investment hurdle rates typically required by institutional investors for companies of comparable size and risk.

In applying the market transactions method, the valuation firm reviewed publicly available data regarding transactions that have occurred in the industry, as well as prior arms-length transactions in our capital stock. The valuation firm applied a revenue multiple that was slightly above the median revenue multiple of all transactions and in-line with the sale of our Series B preferred stock in June 2012.

Our value was then allocated between our shares of Series A preferred stock, our shares of Series B preferred stock and our shares of common stock using the option pricing equity allocation method, using Black-Scholes. In utilizing the Black-Scholes method, our volatility was estimated at 31% which was based on the average volatility of the guideline public companies over a five-year period. The assumed time to expiration was four years, which was based on the estimated timing of a potential liquidity event. Finally, the valuation firm applied a marketability discount to reflect the lack of an active market in shares of our common stock, which resulted in a fair market value of \$4.60 per share.

Our board of directors considered this third-party valuation and the other factors discussed above in determining that the fair market value of our common stock was \$4.69 on July 8, 2013 and August 26, 2013.

Intrinsic Value of Outstanding Options

Based upon the assumed initial public offering price of \$ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, the aggregate intrinsic value of stock options outstanding as of , 2014 was approximately \$ million, of which approximately \$ million related to unvested stock options, and approximately \$ million related to vested stock options.

Liquidity and Capital Resources

Our primary liquidity needs are related to the funding of general business requirements, including working capital requirements, research and development, and capital expenditures. As of December 31, 2013, our principal sources of liquidity were \$2.8 million of cash and cash equivalents and \$3.5 million of borrowing capacity under our line of credit.

In order to grow our business, we intend to increase our personnel and related expenses and to make significant investments in our platform, data centers and infrastructure generally. The timing and amount of these investments will vary based on the rate at which we can add new clients and new personnel and the scale of our application development, data center and other activities. Many of these investments will occur in advance of our experiencing any direct benefit from them which could negatively impact our liquidity and cash flows during any particular period and may make it difficult to determine if we are effectively allocating our resources. However, we expect to fund our operations, capital expenditures and other investments principally with cash flows from operations, and to the extent that our liquidity needs exceed our cash from operations, we would look to our cash on hand and available borrowings to satisfy those needs.

Our cash flows from investing activities and our cash flows from financing activities are influenced by the amount of funds held for clients which varies significantly from quarter to quarter. The balance of the funds we hold depends on our clients' payroll calendar, and therefore such balance changes from period to period in accordance with the timing with each payroll cycle. Funds held for clients are restricted solely for the repayment of client fund obligations.

We believe our current cash and cash equivalents and cash flow from operations will be sufficient to meet our working capital, capital expenditure and other investment requirements for at least the next 12 months.

The following table sets forth data regarding cash flows for the periods indicated:

	Year Ended June 30,			Six Months Ended
	2011	2012	2013	December 31, 2013
Net cash provided by operating activities	\$ 5,022	\$ 8,564	\$ 6,228	\$ 892
Cash flows from investing activities:				
Capitalized internally-developed software costs	(2,746)	(3,716)	(1,967)	(1,859)
Purchases of property and equipment	(1,987)	(3,446)	(3,987)	(2,787)
Net change in funds held for clients	(176,480)	35,724	(92,650)	(135,858)
Net cash provided by (used in) investing activities	(181,213)	28,562	(98,604)	(140,504)
Cash flows from financing activities:				
Net change in client funds obligation	176,480	(35,724)	92,650	135,858
Principal payments on long-term debt	(467)	(312)	(1,625)	(313)
Proceeds from issuance of long-term debt	519	—	—	—
Proceeds from issuance of redeemable convertible Series B preferred stock	—	27,234	—	—
Proceeds from exercise of stock options	—	88	76	—
Payments for redemption of common stock	—	(27,371)	(162)	—
Payments on deferred offering costs	—	—	—	(698)
Net cash provided by (used in) financing activities	176,532	(36,085)	90,939	134,847
Net increase (decrease) in cash and cash equivalents	<u>\$ 341</u>	<u>\$ 1,041</u>	<u>\$ (1,437)</u>	<u>\$ (4,765)</u>

Operating Activities

Net cash provided by (used in) operating activities was \$0.9 million for the six months ended December 31, 2013 as compared to \$(0.1) million for the six months ended December 31, 2012.

Net cash provided by operating activities was \$5.0 million, \$8.6 million and \$6.2 million for the years ended June 30, 2011, 2012 and 2013, respectively.

The decline in net cash provided by operating activities from fiscal 2012 to fiscal 2013 was primarily the result of a decrease of \$1.1 million in net income, as well as a decline of \$0.9 million in working capital, partially offset by increased depreciation and amortization. The increase in net cash provided by operating activities from fiscal 2011 to fiscal 2012 was primarily the result of a \$1.8 million increase in net income, a \$0.8 million increase in depreciation and amortization expense, and a \$0.9 million increase in deferred income tax expense.

Investing Activities

Changes in net cash (used in) provided by investing activities are significantly influenced by the amount of funds held for clients at the end of a reporting period. Changes in the amount of funds held for client from period to period will vary substantially. Our payroll processing activities involves the movement of significant funds from the account of an employer to employees and relevant taxing authorities. During the year ended June 30, 2013 we processed almost \$30 billion in payroll transactions. We debit a client's account prior to any disbursement on its behalf, at which time we begin earning interest on such funds. We currently have agreements with nine banks to execute ACH and wire transfers to support our client payroll and tax services. We believe we have sufficient capacity under these ACH arrangements to handle our transactions for the foreseeable future.

Other investing activities that influence our net cash (used in) provided by investing activities are our capitalization of internally developed software costs and purchases of property and equipment.

Net cash (used in) provided by investing activities was \$(140.5) million for the six months ended December 31, 2013 as compared to \$(82.4) million for the six months ended December 31, 2012. Net cash (used in) provided by investing activities was \$(181.2) million, \$28.6 million and \$(98.6) million, for the years ended June 30, 2011, 2012 and 2013, respectively.

Excluding the net change in funds held for clients, our net cash (used in) provided by investing activities was \$(4.6) million for the six months ended December 31, 2013 as compared to \$(2.6) million for the six months ended December 31, 2012. Excluding the net change in funds held for clients, our net cash (used in) provided by investing activities was \$4.7 million, \$7.2 million and \$6.0 million, for the years ended June 30, 2011, 2012 and 2013, respectively.

The increase of \$127.2 million in net cash used in investing activities from fiscal 2012 to fiscal 2013 was primarily the result of our holding \$128.4 million fewer funds for clients at the end of fiscal 2013 versus fiscal 2012. This decrease in the amount of funds held for clients was offset by a decrease of \$1.7 million in capitalized internally developed software costs.

The decline of \$209.8 million in net cash used in investing activities from fiscal 2011 to fiscal 2012 was primarily the result of our holding an additional \$212.2 million funds for clients at the end of fiscal 2012 versus fiscal 2011. This increase in the amount of funds held for clients was offset by an increase of \$1.0 million in capitalized internally developed software costs and an increase of \$1.5 million in purchases of property and equipment.

Financing Activities

Net cash provided by (used in) financing activities was \$134.8 million for the six months ended December 31, 2013 as compared to \$79.4 million for the six months ended December 31, 2012. Net cash provided by (used in) financing activities was \$176.5 million, \$(36.1) million and \$90.9 million for the years ended June 30, 2011, 2012 and 2013, respectively.

The decrease in net cash used in financing activities from fiscal 2012 to fiscal 2013 was primarily the result of a \$128.4 million net change in funds held for clients, partially offset by a net increase of \$1.3 million of principal payments on long-term debt. The increase in net cash used in financing activities from fiscal 2011 to fiscal 2012 was primarily a result of a \$212.2 million net change in funds held for clients and a \$27.4 million payment for the redemption of shares of common stock in connection with our Series B preferred stock financing. This redemption was offset by \$27.2 million of proceeds from the issuance of Series B preferred stock.

Contractual Obligations and Commitments

Our principal commitments consist of operating lease obligations and our note payable. The following table summarizes our contractual obligations at June 30, 2013:

	Payment Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 years
Note payable—principal payments	\$ 1,563	\$ 625	\$ 938	\$ —	\$ —
Note payable—interest payments	133	84	49	—	—
Operating lease obligations	17,705	2,367	6,562	5,806	2,970
Total	\$ 19,401	\$ 3,076	\$ 7,549	\$ 5,806	\$ 2,970

As of December 31, 2013, we had outstanding indebtedness of \$1.3 million under a note. The note bears interest at 6.50% per annum, payable monthly, and will mature on December 31, 2015. The note is collateralized by substantially all of our assets. We intend to use a portion of the proceeds of this offering to repay our outstanding indebtedness. For a description of how we intend to use of the proceeds of this offering, see "Use of Proceeds."

We also have a line of credit which allows for borrowings up to \$3.5 million. Interest is payable monthly at the bank's base rate, which was 3.25% at December 31, 2013, plus 1.50% with a floor of 5.50%. A commitment fee on the average daily undisbursed amount is assessed quarterly at a rate of 0.375% per annum. The line of credit is collateralized by substantially all of our assets. There were no outstanding borrowings under this line of credit as of December 31, 2013. On November 27, 2013, we increased the line of credit to \$3.5 million and extended the due date to December 31, 2015.

Each of our two reseller agreements provides that we are required upon a termination of the agreement to acquire the assets of the reseller. One of the agreements provides that either party may terminate the agreement by electing not to renew the agreement beyond its original term ending in February 2016. We, but not the reseller, also have the right to terminate the agreement at any time following the completion of this offering. If a termination were to occur, the purchase price of the assets would be determined based on the annualized value of net amounts paid by us to the reseller during the three months preceding such termination. We paid this reseller \$1.0 million, \$1.7 million and \$2.4 million for the full fiscal years 2011, 2012 and 2013, respectively. For additional information see note 14 to our consolidated financial statements included elsewhere in this prospectus.

The second reseller agreement provides that the reseller may terminate the agreement by providing nine months' prior notice; provided that the reseller may not provide such nine-month termination notice until after the earlier of (i) six months following the closing of this offering or (ii) December 31, 2014. We, but not the reseller, also have the right to terminate the agreement at any time after the date that is six months following the completion of this offering. If a termination were to occur, the purchase price of the assets would be determined based on net amounts paid by us to the reseller during the 12 months preceding the termination. We paid this reseller

\$0.9 million, \$1.3 million and \$1.8 million for the full fiscal years 2011, 2012 and 2013, respectively. For additional information see note 14 to our consolidated financial statements included elsewhere in this prospectus.

Capital Expenditures

We expect to increase capital spending as we continue to grow our business and expand and enhance our data centers and technical infrastructure. Future capital requirements will depend on many factors, including our rate of sales growth. In the event that our sales growth or other factors do not meet our expectations, we may eliminate or curtail capital projects in order to mitigate the impact on our use of cash. Capital expenditures were \$2.0 million, \$3.4 million and \$4.0 million for the years ended June 30, 2011, 2012 and 2013, respectively, and \$2.8 million for the six months ended December 31, 2013, exclusive of capitalized internally developed software costs of \$2.7 million, \$3.7 million, \$2.0 million and \$1.9 million for the same periods, respectively.

Off-Balance Sheet Arrangements

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

Quantitative and Qualitative Disclosures about Market Risk

We have operations solely in the United States and are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate and certain exposure as well as risks relating to changes in the general economic conditions in the United States. We have not used, nor do we intend to use, derivatives to mitigate the impact of interest rate or other exposure or for trading or speculative purposes.

Interest Rate Risk

Funds held for clients are held in interest-bearing accounts at financial institutions. As a result of our investing activities, we are exposed to changes in interest rates that may materially affect our results of operations. In a falling rate environment, a decline in interest rates would decrease our interest income.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

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.

BUSINESS

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 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 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 and 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. We seek to develop deep relationships with our clients through our integrated implementation and client service organization, which is designed to meet the needs of medium-sized organizations.

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 increasingly become mobile, work remotely and expect an end 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. Existing solutions offered by third-party payroll service providers can have limited capabilities and configurability while enterprise-focused software vendors can be expensive and time-consuming to implement and manage. We believe that medium-sized organizations are better served by solutions designed to meet their unique needs.

Our solutions provide the following key benefits to our clients:

- Comprehensive cloud-based platform optimized to meet the payroll and HCM needs of medium-sized organizations;
- Modern, intuitive user experience and self-service capabilities that significantly increase employee engagement;
- Flexible and configurable platform that aligns with business processes and centralizes payroll and HCM data;
- Software as a service, or SaaS, delivery model that reduces total cost of ownership for our clients; and
- Seamless data integration with our extensive partner ecosystem that saves time and expense and reduces the risk of errors.

We market and sell our products primarily through our direct sales force. We generate our sales leads through a variety of focused marketing initiatives and 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. Our revenue retention rate was greater than 92% in each of fiscal 2012 and 2013. Our total revenue increased from \$55.1 million in fiscal 2012

to \$77.3 million in fiscal 2013, representing a 40% year-over-year increase, while our recurring revenues increased from \$52.5 million in fiscal 2012 to \$72.8 million in fiscal 2013, representing a 39% year-over-year increase. Our recurring revenue model provides significant visibility into our future operating results.

Industry Background

Effective management of human capital is a core function for all organizations and requires a significant commitment of resources. Identifying, acquiring and retaining talent is a priority at all levels of an organization. In today's increasingly complex business and regulatory environment, organizations are being pressured to manage critical payroll and HCM functions more effectively, automate manual processes and decrease their operating costs.

Complex and Ever-Changing Tax and Regulatory Environment

The tax and regulatory environment in the United States is complex and ever-changing. Organizations are subject to a myriad of tax, benefit, workers compensation, healthcare and other rules, regulations and reporting obligations. In addition to U.S. federal taxing and regulatory authorities, there are more than 10,000 state and local tax codes in the United States. Further, federal, state and local government agencies continually enact and amend the rules, regulations and reporting requirements with which organizations must comply.

Growing Demand for Mobility and Enhanced User Experience

Connectivity and mobility are enabling employees to spend less time in traditional office environments and more time working remotely. This trend increases the demand for advanced and intuitive solutions that improve collaboration and foster employee engagement, such as remote self-service access to payroll and timesheet reporting, HR and benefits portals and other talent management applications. Given the prominence of consumer-oriented Internet applications, employees expect the user experience and accessibility of internal systems to be similar to those of the latest Internet applications, such as LinkedIn, Amazon and Facebook.

Medium-Sized Organizations Face Unique Challenges

Medium-sized organizations functioning without the infrastructure, expertise or personnel of larger enterprises are uniquely pressured in the current complex and dynamic environment. Employees in these medium-sized organizations often perform multiple job functions, and many medium-sized organizations have limited financial, technical and other resources needed to effectively manage their critical business requirements and to build and maintain the systems required to do so.

Large Market Opportunity for Payroll and HCM Solutions

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. The market opportunity is driven by the importance of payroll and HCM solutions to the successful management of organizations.

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. Our existing clients do not typically buy our entire suite of solutions, and as we continue to expand our product offerings, we believe that we have an opportunity to increase the amount clients spend on payroll and HCM solutions per employee and to expand our addressable market.

Organizations Are Increasingly Transitioning to SaaS Solutions

SaaS solutions are easier and more affordable to implement and operate than those offered by traditional software providers. SaaS solutions also enable software updates with greater frequency and without new hardware investments, enabling organizations to better react to changes in their environments. Many organizations are transitioning to SaaS solutions for front-office business applications such as salesforce management. Similarly, we believe organizations are adopting back-office SaaS applications, such as payroll and HCM, with increasing frequency. According to a market analysis published by IDC, titled *Worldwide SaaS and Cloud Software 2012-2016 Forecast and 2011 Vendor Shares* (August 2012), the U.S. SaaS market is estimated to be \$21 billion in 2014 and is projected to grow at a 16% compound annual growth rate from 2012 to 2016.

Limitations of Existing Solutions

We believe that existing payroll and HCM solutions have limitations that cause them to underserve the unique needs of medium-sized organizations. Existing payroll and HCM solutions include:

- *Traditional Payroll Service Providers.* 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 integration beyond traditional payroll processing. The lack of a unified and configurable payroll and HCM suite can diminish the effectiveness of a system, detract from user experience and limit integration with other solutions. In addition, we believe that certain traditional payroll service providers often do not provide a high-quality client service experience.
- *Enterprise-Focused Payroll and HCM Software Vendors.* Enterprise-focused software vendors offer solutions and services that are designed for the complex needs and structures of large enterprises. As a result, their solutions can be expensive, complex and time-consuming to implement, operate and maintain.
- *HCM Point Solution Providers.* Many HCM point solutions lack integrated payroll functionality. The implementation and management of multiple point solutions and the reliance on multiple service organizations can be challenging and expensive for medium-sized organizations.
- *Manual Processes for Payroll and HCM Functions.* Manual payroll and HCM processes require increased HR, payroll and finance personnel involvement, resulting in higher costs, slower processing and greater risks of data entry errors.

Given the challenges medium-sized organizations face operating in complex and dynamic environments and the limited ability of traditional offerings to address these challenges, we believe there is a significant market opportunity for a comprehensive, unified SaaS solution designed to serve the payroll and HCM needs of medium-sized organizations.

Our Solution

We are a cloud-based provider of payroll and HCM software solutions for medium-sized organizations. Our solutions enable medium-sized organizations to more efficiently manage payroll

and human capital in their complex and dynamic operating environments. As of June 30, 2013, we served approximately 6,850 clients across the U.S., which on average had over 100 employees.

The key benefits of our solution include the following:

- *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. Our solutions help our clients attract, retain and manage their employees within a single, comprehensive system.
- *Modern, Intuitive User Experience.* Our intuitive, easy-to-use interface is based on current technology and automatically adapts to users' devices, including mobile platforms, thereby significantly increasing accessibility of our solutions and decreasing the need for training. Our platform's self-service functionality, combined with seamless integration across all our solutions, provides employees with an engaging experience. Our performance management applications include peer-to-peer employee recognition and social employee profiles that create a reward and recognition environment resulting in greater employee engagement.
- *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. Our systems centralize payroll and HCM data, minimizing inconsistent and incomplete information that can be produced when using multiple databases.
- *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 and enabling our clients to focus less on their IT infrastructure and more on their core businesses. Our cloud-based software can be operated by a single administrator without the support of an in-house information technology department. Our multi-tenant and modern architecture allows for frequent software enhancements thereby enabling our clients to react to a rapidly changing and complex operating environment. Our cloud-based platform enables our clients to scale their businesses without having to acquire additional hardware or to resolve the integration challenges that often result from traditional outsourcing solutions.
- *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. We integrate data with these related systems through a secure connection, which significantly decreases the risk of unauthorized third-party access and other security breaches. Our direct and automated data transmission improves the accuracy of data and facilitates data collection in our partners' systems. We believe having automated data integration with a payroll and HCM provider like us differentiates our partners' product offerings, strengthening their competitive positioning in their own markets.

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. While we served approximately 6,850 clients across the U.S. as of June 30, 2013, there were over 565,000 firms with 20 to 999 employees in the United States, employing more than 40 million persons, according to the U.S. Census Bureau in 2010. 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 believe that our leadership position is in significant part the result of our investment and innovation in our product offerings designed for medium-sized organizations. Therefore, 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 and existing clients.
- *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, providing what we believe to be a competitive advantage over alternative solutions. Our modern, intuitive user interface utilizes features found on many popular consumer Internet sites, enabling users to use our solutions with limited training. 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 believe that our platform's automated data integration with over 200 related third-party partner systems is valuable to our referral participants, as they are able to access payroll and HR data through a single system which decreases complexity and cost and complements their own product offerings. 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.

Our Products

Our cloud-based platform features a suite of unified payroll and HCM applications. Our solutions are highly configurable and easy to use, implement, update and maintain.

Paylocity Web Pay

Paylocity Web Pay is designed to provide enterprise-grade payroll processing and administration.

Feature	Functionality
Company-Level Configuration	<ul style="list-style-type: none">• Real time ability to add, delete and modify client-specific payroll settings, including departments, job codes, earnings, deductions, taxes and garnishments• Ability to create customized payroll earning or deduction code calculations, 401(k) match calculations and labor cost allocations• Ability to configure payroll audits that identify potential errors prior to finishing payroll, such as paying the same employee twice
Configurable Templates	<ul style="list-style-type: none">• Combination of standard and modifiable templates powered by highly-flexible drag-and-drop technology• Standard templates such as new hire, job change, leave of absence and termination templates• Enables users to configure user interface to efficiently align to organizations' business processes• Ability to require additional data, add default values and insert new custom fields increases accuracy and consistency of data across the platform
Custom Checklists	<ul style="list-style-type: none">• Allows users to track critical steps in hiring and other processes• Triggers reports and notification emails to track critical steps and informs users when tasks are complete
Advanced Reporting	<ul style="list-style-type: none">• Easy-to-use, powerful reporting dashboard enables users to design and create ad-hoc reports or rely on over 100 standard reports• Ability to generate a variety of pre-process reports via report library and report writer• Real-time report generation, including the ability to automatically schedule reports to run on a user-defined frequency• Point-in-time reporting, including comparative analysis over multiple periods, allowing users to view data from any time in history
HR Insight and Analytics	<ul style="list-style-type: none">• Provides a dashboard view into critical HR metrics such as headcount and employee turnover• Users can choose between different types of graphical display or export the information to spreadsheets or other documents

Feature	Functionality
Affordable Care Act Compliance	<ul style="list-style-type: none">• Allows for modeling of all affordability safe harbor methods• Simultaneous measurement of initial and standard measurement periods for new hire employees• Reporting that provides multiple views allowing brokers and clients to make better informed benefit decisions• Advanced search and query capabilities provide ability for administrators to easily access key employee information

Paylocity HR

Paylocity HR provides a set of core HR capabilities designed to improve HR compliance, enhance reporting capabilities and reduce the amount of time necessary to manage employee information.

Feature	Functionality
Employee Record Management	<ul style="list-style-type: none">• Manage payroll deductions for employee benefit plans such as health and 401(k)• Automated employee time-off requests• Track employee skills, events, education and prior employment• Store employee documentation electronically• Record and track company property issued to employees• Ability to add custom fields to track additional employee related information
HR Compliance and Reporting	<ul style="list-style-type: none">• Interactive employee organizational chart• Family Medical Leave Act (FMLA) tracking• Equal Employment Opportunity (EEO) reporting• Occupational Safety & Health Administration (OSHA) tracking• Consolidated Omnibus Budget Reconciliation Act (COBRA) tracking• VETS 100/100A reporting• Workers' compensation tracking and reporting• I-9 verification

Paylocity Impressions

Paylocity Impressions is our advanced social media feature designed to integrate peer-to-peer collaboration and recognition into our solution, giving employees the ability to recognize each other and provide immediate feedback through virtually any device having Internet access. Paylocity Impressions helps to provide timely, meaningful recognition and promotes repeat positive behaviors

among employees. Administrators have the ability to give their employees the option to post their accomplishments on their employee profiles to share with co-workers and other members of the organization. Employees can also be given the option to self-manage their profiles as well as update images and link to social sites such as LinkedIn, Twitter and Facebook. We believe that this functionality delivers a unique and modern solution to managing employee recognition programs.

Performance Management

Performance Management is designed to bring ease and convenience to the employee performance appraisal process and to give employees the opportunity to participate in their performance review and be more engaged in their professional development. Employee reviews and appraisals throughout the organization are stored and analyzed in a single system. Key features of Performance Management include:

Feature	Functionality
Reviews	<ul style="list-style-type: none">• Provides the ability for employees and managers to complete online reviews, add comments and sign off on completed reviews• Includes automated workflow at each step of the review process with ability for HR administrators to review and provide feedback prior to final approval
360° Feedback	<ul style="list-style-type: none">• Provides the ability to access feedback from employees across the organization to receive input on employee performance and accomplishments• Enables year-round or point-in-time 360° feedback
Goals Management	<ul style="list-style-type: none">• Manages employee goals and appraisals in a single place to reduce the time required to navigate between screens• Allows specific goals to be displayed on the performance review for increased employee focus and development• Assigns goals specific to employees based on skill level and other factors
Self-Service Set-Up	<ul style="list-style-type: none">• Provides the ability to determine and control key success factors• Provides the ability to create review forms and set review notification date reminders

Self-Service HR Portals

Self-Service HR Portals are designed to extend our solutions' functionality by giving employees and managers secure and real-time access to critical payroll and HR information. Self-Service HR Portals help to improve communication within clients' organizations with such tasks as reviewing time-off requests, scheduling and benefits enrollment. Self-Service HR Portals also provide the

ability to post and manage company news items, add reminders, create custom web pages, view organizational charts and download videos.

Feature	Functionality
Employee Self-Service Portal	<ul style="list-style-type: none">• Full online and mobile access through virtually any device having Internet access to individual payroll, HR and benefits information• Provides the ability for administrators to communicate company news, policy changes, such as handbook revisions, and to post documents, create custom web pages to communicate with employees• Administrators can configure portal to link to third-party websites or embed videos• Allows employees to independently take actions such as clock in and out, make direct deposit changes, email check information, access tax forms, request time off, view time-off balances, access the company directory, manage contact information
Manager Self-Service Portal	<ul style="list-style-type: none">• Improves communication among managers and HR and payroll and finance departments• Provides a single view for managers where they can approve employee changes and requests, manage outstanding tasks and easily access employee information• A workflow engine allows managers to initiate pay rate changes and automatically route changes for approval to various levels of the organization• Allows managers to assign supervisors to both direct and indirect reports

Paylocity Web Time

Paylocity Web Time is a time and attendance solution designed to automate manual processes, improve productivity and help organizations control labor costs. Paylocity Web Time handles such tasks as managing schedules, tracking time and attendance, including overtime, rounding rules, payroll policies, labor allocation and time-off accruals. Paylocity Web Time also notes exceptions such as tardiness, absenteeism and misuse of break or meal periods. Paylocity Web Time is fully integrated with Paylocity Web Pay giving supervisors and employees a single point of entry into the system and automatic set-up of employee records and policies. Paylocity Web Time also provides the ability to select from a wide variety of biometric and bar code hardware options to track employees' time. We believe this integration helps organizations reduce redundant processes, improve data accuracy, reduce leave liability and improve tracking capabilities.

Paylocity Web Benefits

Paylocity Web Benefits is a benefit management solution that integrates with insurance carrier systems to provide automated administrative processes and allows users to choose benefit elections and make life event changes online, summarize benefit elections and perform other similar

benefit-related tasks. Paylocity Web Benefits also enables premium reconciliation, management of voluntary benefits and advanced reporting.

Implementation and Client Services

Delivering our clients a positive experience is an essential element of our ability to sell our solutions and retain our clients. We provide our clients with a single point-of-contact supplemented by teams with deep technical and subject matter expertise. The single point of contact allows our account managers to better understand our clients' needs, which we believe strengthens our client relationships.

Implementation and Training Services

Our clients are medium-sized organizations that are typically migrating to our platform from a competitive solution or are adopting an online payroll and HCM solution for the first time. These organizations often have limited internal resources and generally rely on us to implement our solutions.

We typically implement our Paylocity Web Pay product within only three to six weeks, and any additional products thereafter, as requested by the client. Each client is guided through the implementation process by an implementation consultant who serves as a single point-of-contact for all implementation matters. We believe our ability to rapidly implement our solutions is principally due to the combination of our emphasis on engagement with the client, our standardized methodology, our cloud-based architecture and our highly-configurable, easy-to-use products.

We offer our clients the opportunity to participate in formal training designed to increase their ability to further utilize the functionality of our products within their organizations. Our training courses are designed to enable selected employees of our clients to develop expertise in our solutions and act as a first-level support resource for their colleagues.

In order to ensure client satisfaction, a team of client service representatives conducts a comprehensive audit of a client's account after the client has completed the implementation process. Thereafter, the client is transitioned to our client service team.

Client Service

Our client service model is designed to serve the needs of medium-sized organizations and to build loyalty by developing strong relationships with our clients. We strive to achieve high revenue retention, in part, by delivering high-quality service. Our revenue retention was greater than 92% in each of fiscal 2011, 2012 and 2013.

Each client is assigned an account manager who serves as the central point-of-contact for any questions or support needs. We believe this approach enhances our client service by providing each client with a single person who understands the client's business, responds quickly and is accountable for the client experience. Our account managers are supplemented by teams with deep technical and subject matter expertise who help to expediently and effectively address client needs. We also proactively solicit client feedback through ongoing surveys from which we receive actionable feedback that we use to enhance our client service processes.

Tax and Regulatory Services

Our software contains a rules engine designed to make accurate tax calculations that is continually updated to support all pertinent legislative changes across all U.S. jurisdictions. Our tax filing service provides a variety of solutions to our clients including processing payroll tax deposits, preparing and filing quarterly and annual tax returns and amendments and resolving client tax notices.

Clients

As of June 30, 2013, we provided our solutions to approximately 6,850 clients in all U.S. states. Although many clients have multiple divisions, segments or locations, we only count such clients once for these purposes.

Our clients include for-profit and non-profit organizations across industries including business services, financial services, healthcare, manufacturing, restaurants, retail, technology and others. For each of the three years ended June 30, 2011, 2012 and 2013, no client accounted for more than 1% of our revenues.

Case Studies

Rapid Manufacturing

Rapid Manufacturing, headquartered in Anaheim, California, is a global electronics manufacturing company with approximately 180 employees that specializes in electronic custom-designed wire and cable harnesses. When evaluating its payroll and HCM needs, Rapid sought to better leverage the limited resources within its HR and finance departments, while at the same time improving access to real-time data for executive decision-making.

A primary driver in Rapid's decision to select Paylocity was the fact that our solutions were optimized for medium-sized organizations and could grow with Rapid's needs. Rapid's HR and finance departments discovered that our advanced reporting and analytics applications, such as point-in-time reporting to analyze year-over-year headcount, location or rate changes, significantly enhanced their ability to drive strategic decisions. In addition, the flexibility to access historical data in the cloud, combined with our powerful cross-year reporting features, greatly facilitated Rapid's preparation for regulatory tasks such as 401(k) and workers' compensation audits. By integrating Rapid's general ledger accounting data into our solutions, we were able to decrease Rapid's processing times such that tasks previously requiring multiple hours could now be accomplished within seconds.

Cantoni

Cantoni, headquartered in Dallas, Texas, is a full service interior design provider that offers innovative modern home furnishings. Cantoni has approximately 133 employees in multiple locations across the country. Before switching to Paylocity, Cantoni's existing payroll and HCM solutions required significant manual intervention to meet the company's everyday needs. Cantoni sought a solution that would help eliminate paper-intensive processes, automate manual tasks and create a unified experience across payroll, HR and time and labor.

Cantoni selected our cloud-based solutions based on the intuitive user interface and robust capabilities, along with our unified implementation and client service model. Cantoni reported that our platform significantly enhanced ease of use and enabled access in a single system to critical information that had previously been stored across multiple systems. Our solution's configurable templates and checklists seamlessly aligned with Cantoni's internal processes, saving Cantoni's team significant time and improving the accuracy of its employee records. Cantoni and its employees realized additional time savings and reductions in errors by integrating their 401(k) data with our large network of integration partners. As a result of the benefits of our platform, Cantoni and its employees can now focus more on Cantoni's core business.

Lutco

Lutco, headquartered in Worcester, Massachusetts, is a global supplier of quality semi-precision bearings, metal stampings and housed bearing assemblies and has approximately 150 employees.

Recognizing that its existing payroll and HCM solution, offered by a regional service provider, did not provide the breadth of functionalities needed to operate efficiently, Lutco conducted an evaluation of available solutions with the goal of finding a flexible and configurable solution. Lutco also sought to minimize potential disruptions to critical payroll and HR processes from switching providers.

After comprehensive testing of our platform, Lutco found that our solutions provided a modern user interface with features found on major consumer Internet sites, decreasing the need for end user training. Having selected Paylocity, our platform was implemented with minimal impact on existing workflows. After Lutco ran its first payroll on our platform, Lutco recognized that the blackout periods that limited access to employee data after payroll processing were a system requirement of its previous provider that was no longer required, shortening from days to minutes the time needed by Lutco to respond to broker requests for critical census information.

INSP

INSP, headquartered in Charlotte, North Carolina, is a cable network provider that specializes in high quality television programs. As INSP grew beyond 250 employees, it performed a complete evaluation of its payroll and HCM needs. INSP sought a comprehensive payroll and HCM solution with a unified database that could be accessed remotely by administrators, managers and employees.

INSP chose Paylocity due to the powerful and easy-to-use features of our solutions. Our cloud-based self-service HR portals enabled INSP's managers and employees to easily interact with each other from anywhere in the country through mobile devices. These and other benefits of our platform improved INSP's manager productivity, increased employee satisfaction and enabled INSP to accelerate its cultural transformation.

Sales and Marketing

We market and sell our products and services primarily through our direct sales force. Our direct sales force includes sales representatives who have defined geographic territories throughout the U.S. We seek to hire experienced sales representatives wherever they are located, and believe we have room to grow the number of sales representatives in each of our territories. In addition, we have contractual arrangements with third-party resellers who also sell subscriptions to our payroll and HCM solutions.

The sales cycle begins with a sales lead generated by the sales representative through our third-party referral network, a client referral, our telemarketing team, our external website, e-mail marketing or territory-based activities. Through one or more on-site visits, phone-based sales calls, or web demonstrations, sales representatives perform in-depth analysis of prospective clients' needs and demonstrate our solutions. We employ sophisticated software to track, classify and manage our sales representatives' pipeline of potential clients. We support our sales force with a marketing program that includes seminars and webinars, email marketing, social media marketing, broker events and web marketing.

Referral Network

As a core element of our business strategy, we have developed a referral network of third-party service providers, including 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants, that recommend our solutions and provide referrals. Our referral network has become an increasingly important component of our sales process, and in fiscal 2013, approximately 25% of our new client revenue originated by referrals from participants in our referral network.

We believe participants in our referral network refer potential clients to us because we do not provide services that compete with their own and because we offer third parties the ability to integrate their systems with our platform. Unlike other payroll and HCM solution providers who also provide retirement plans, health insurance and other products and services competitive with the offerings of the participants in our referral network, we focus only on our core business of providing cloud-based payroll and HCM solutions. In some cases we have formalized relationships in which we are a recommended vendor of these participants. In other cases, our relationships are informal. We typically do not compensate these participants for referrals.

Partner Ecosystem

We have developed a partner ecosystem of third-party systems, such as 401(k), benefits and insurance provider systems, with whom we provide automated data integration for our clients. These third-party providers require certain financial information from their clients in order to efficiently provide their respective services. After securing authorization from the client, we exchange payroll data with these providers. In turn, these third-party providers supply data to us, which allows us to deliver comprehensive benefit management services to our clients. We believe our ability to integrate our systems with those of these partners adds value to our mutual clients and to our partners.

We have also developed our solutions to integrate with a variety of other systems used by our clients, such as accounting, point of sale, banking, expense management, recruiting, background screening and skills assessment solutions. We believe our clients benefit from an integrated and seamless solution.

Technology

We offer our solutions on a cloud-based platform that leverages a unified database architecture and a common code base that we organically developed. Clients do not need to install our software in their data centers and can access our solutions through any mobile device or web browser with Internet access.

- *Multi-Tenant Architecture.* Our software solutions were designed with a multi-tenant architecture. This architecture gives us an advantage over many disparate traditional systems which are less flexible and require longer and more costly development and upgrade cycles.
- *Mobile Focused.* We employ mobile-centric principles in our solution design and development. We believe that the increasing mobility of employees heightens the importance of access to our solutions through mobile devices, including smart phones and tablets. Our mobile experience provides our clients and their employees with access to our solutions through virtually any device having Internet access. We bring the flexibility of a secure, cloud-based solution to users without the need to access a traditional desktop or laptop computer.
- *Security.* We maintain comprehensive security programs designed to ensure the security and integrity of client and employee data, protect against security threats or data breaches and prevent unauthorized access. We regulate and limit all access to servers and networks at our data centers. Our systems are monitored for irregular or suspicious activity, and we have dedicated internal staff perform security assessments for each release. Our systems undergo regular penetration testing and source code reviews by an independent third-party security firm.

We host our solutions at our primary data center at our corporate headquarters in Arlington Heights, Illinois. We utilize a secondary data center through a third-party in Kenosha, Wisconsin for

backup and disaster recovery. We supply the hardware infrastructure and are responsible for the ongoing maintenance of our equipment at both data center locations.

Competition

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 providers, such as Cornerstone OnDemand, Inc.

We believe the principal competitive factors on which we compete in our market include the following:

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

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

Research and Development

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

Research and development costs, including research and development costs that were capitalized, were approximately \$4.3 million, \$5.5 million and \$8.8 million for the years ended June 30, 2011, 2012 and 2013, respectively, and approximately \$6.2 million for the six months ended December 31, 2013. Our research and development personnel are principally located at our headquarters, although we seek to hire highly experienced personnel wherever they are located.

Intellectual Property

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

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to misappropriate our rights or to copy or obtain and use our proprietary technology to develop applications with the same functionality as our applications. Policing unauthorized use of our technology and intellectual property rights is very difficult.

We expect that providers of payroll and HCM solutions such as ours may be subject to third-party infringement claims as the market and the number of competitors grows and the functionality of applications in different industry segments overlaps. Any of these or other third parties might make a claim of infringement against us at any time.

Properties

As of December 31, 2013, our corporate headquarters occupied approximately 90,000 square feet in Arlington Heights, Illinois under a lease expiring in April 2019. As of December 31, 2013, we also leased facilities in New York, New York, Lake Mary, Florida and Oakland, California.

Employees

As of December 31, 2013, we had approximately 838 full-time employees, of which 349 were in client services and operations, 159 were in client implementation, 101 were in research and development, 161 were in sales and marketing and 68 were in general and administrative. None of our employees is represented by a union or is party to a collective bargaining agreement, and we have not experienced any work stoppages. We believe we have good relations with our employees and that our culture benefits our clients and supports our growth. Our management team is committed to maintaining and improving our culture even as we grow rapidly. We were recognized by the Best Companies Group on the list of "Best Places to Work In Illinois" in each of 2011, 2012 and 2013.

Legal Proceedings

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, we believe would individually or taken together have a material adverse effect on our business, financial condition or liquidity.

MANAGEMENT**Executive Officers and Directors**

The following table sets forth information regarding our executive officers and directors, including their ages as of December 31, 2013.

Name	Age	Position
Executive Officers		
Steven R. Beauchamp(3)	42	President, Chief Executive Officer and Director
Steven I. Sarowitz(2)(3)	48	Executive Chairman and Director
Peter J. McGrail	54	Chief Financial Officer
Michael R. Haske	41	Senior Vice President of Sales & Marketing
Edward W. Gaty	40	Senior Vice President of Product Development
Jenifer L. Page	41	Senior Vice President of Operations
Non-Management Directors		
Jeffrey T. Diehl(1)(2)(3)	43	Director
Mark H. Mishler(1)(2)	55	Director
Ronald V. Waters, III(1)	61	Director

- (1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Nominating and Corporate Governance Committee

Executive Officers

Steven R. Beauchamp is our President and Chief Executive Officer and a Director. Prior to joining Paylocity in 2007, Mr. Beauchamp was employed by Paychex, Inc., from September 2002 to August 2007 and served as VP of Product Management and as a Corporate Officer. Mr. Beauchamp also served as Vice President of Payroll Operations for Advantage Payroll Services, Inc. from August 2001 to September 2002 after Advantage Payroll acquired Payroll Central where he served as President from May 1999 to August 2001. Mr. Beauchamp also spent three years in operations management with ADP Canada from May 1995 to April 1998. Mr. Beauchamp holds a B.B.A. from Wilfrid Laurier University and an M.B.A. from Queen's University. Mr. Beauchamp brings to our board of directors over 15 years of experience in management positions in payroll services companies, and his experience and familiarity with our business as our President and Chief Executive Officer.

Steven I. Sarowitz founded Paylocity in 1997 and is our Executive Chairman and a Director. Prior to founding Paylocity, Mr. Sarowitz worked at Robert F. White, a Chicago-based independent payroll service firm. He later was an executive at three privately-held payroll companies. Mr. Sarowitz formerly served as President of the Independent Payroll Providers Association. Mr. Sarowitz holds a B.A. in Economics from the University of Illinois at Urbana. Mr. Sarowitz brings to our board of directors extensive executive leadership and operational experience in payroll services companies, and his experience and familiarity with our business as the founder and Executive Chairman.

Peter J. McGrail is our Chief Financial Officer. Prior to joining Paylocity in 2010, Mr. McGrail served from 2007 to 2009 as Chief Financial Officer of FetchDog, a pet accessory catalog and Internet sales company. Mr. McGrail also served previously as Chief Financial Officer for two payroll services companies: Advantage Payroll Services, Inc. from 1999 to 2003 and CompuPay, Inc. from

2005 to 2007. Mr. McGrail also spent seven years at the Boston office of KPMG Peat Marwick, now KPMG, where he was an audit manager and attained his CPA designation. Mr. McGrail holds a Master's Degree in Accounting from Bentley University and a B.A. in Economics from Colgate University.

Michael R. Haske is our Senior Vice President of Sales & Marketing. Prior to joining Paylocity in 2007, Mr. Haske held several roles at Paychex, Inc., including Director of Marketing and Business Development and Regional Manager. Prior to joining Paychex, Inc., Mr. Haske held multiple roles with Automatic Data Processing, Inc., including Sales Manager & Corporate Sales Trainer. Mr. Haske earned his B.A. degree in Marketing and Finance from the University of Michigan. He also earned an M.B.A. in Marketing from Cardean/Ellis NYIT.

Edward W. Gaty is our Senior Vice President of Product Development. Prior to joining Paylocity in July 2013, Mr. Gaty held several positions at Hewitt Associates and Aon Hewitt, a human resources consulting firm, from 1995 to 2013, including Chief Information Officer, Benefits Administration and Chief Technology Officer, Benefits Administration. Mr. Gaty holds a B.A. in Economics & Business Administration from Kalamazoo College and an M.S. in Information Technology from Northwestern University.

Jenifer L. Page is our Senior Vice President of Operations. Ms. Page has held several positions at our company since joining Paylocity as one of our earliest employees in 1998. Ms. Page began her career with us as a client service representative, has risen through the ranks and has held various leadership positions in client service and operations. She was named our Vice President of Client Services in 2003 and our Senior Vice President of Operations in 2011. Ms. Page attended DePaul University where she studied organizational leadership.

Non-Management Directors

Jeffrey T. Diehl has served as a Director since May 2008. Mr. Diehl is currently a Partner at Adams Street Partners, a global private equity investment management firm. Prior to joining Adams Street Partners in 2000, Mr. Diehl worked at Brinson Partners/UBS Global Asset Management and The Parthenon Group. Mr. Diehl serves as a director of various private companies. Mr. Diehl holds a B.S. from Cornell University and an M.B.A. from Harvard University. Mr. Diehl brings to our board of directors years of experience as an advisor to a wide range of technology companies, including companies in the software, IT-enabled business services and consumer Internet/media sectors. Mr. Diehl's experience with the growth and development of technology companies provides our board of directors with a unique perspective on our long-term strategy.

Mark H. Mishler has served as a Director since November 2013. Since 2011, Mr. Mishler has served as the President and Chief Executive Officer and as a Director of Interstate National Corporation. From 2002 to 2010, Mr. Mishler served as President, Chief Operating Officer and as a Director of The Warranty Group. Mr. Mishler holds a B.S. in Accounting from Robert Morris University. Mr. Mishler is a retired officer of the United States Army. Mr. Mishler brings to our board of directors 30 years of business experience in positions such as controller, chief financial officer, chief operating officer and chief executive officer. In addition, Mr. Mishler has served as a director on numerous boards. Mr. Mishler has significant finance experience derived primarily from his previous service as a controller and chief financial officer.

Ronald V. Waters, III has served as a Director since November 2013. Mr. Waters has been an independent business consultant since May 2010. From 2009 to May 2010, he was a Director and the President and Chief Executive Officer of LoJack Corporation, or LoJack, a worldwide marketer of wireless tracking and recovery systems for valuable mobile assets, and, from 2007 to 2008, he was a Director and the President and Chief Operating Officer of LoJack. He is a director of Fortune Brands Home & Security, Inc., a home and security products company, Chiquita Brands

International, Inc., an international marketer and distributor of food products, and HNI Corp., a manufacturer of office furniture and a manufacturer and marketer of gas- and wood-burning fireplaces. From 2006 to 2007, Mr. Waters served as a director of Sabre Holdings Corporation. Mr. Waters brings to our board of directors leadership experience through his former role as Chief Executive Officer of LoJack and significant finance expertise derived primarily from his current service on the audit committee of two other public companies and previous roles as a director and Chief Operating Officer at a public company, Chief Financial Officer at Wm. Wrigley Jr. Company, Controller at The Gillette Company and partner of a large public accounting firm. Mr. Waters also brings to the our board of directors international, legal and information technology expertise derived primarily from his service in various roles at several large public companies.

Election of Officers

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

Board of Directors

Our board of directors may establish the authorized number of directors from time to time by resolution. Our board of directors currently consists of five members. In accordance with our amended and restated certificate of incorporation and our amended and restated bylaws, each to be effective immediately prior to the completion of this offering, our board of directors will be divided into three classes with staggered three-year terms. At each annual meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Vacancies on our board of directors can be filled by a majority vote of the board of directors.

The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change of control. Messrs. _____ and _____ are the Class I directors, and their terms will expire in 2015. Messrs. _____ and _____ are the Class II directors, and their terms will expire in 2016. Mr. _____ is the Class III director, and his term will expire in 2017.

Director Independence

Our common stock will be listed on the NASDAQ Global Select Market. The listing rules of this stock exchange generally require that a majority of the members of a listed company's board of directors, and each member of a listed company's audit, compensation and nominating and corporate governance committees, be independent within specified periods following the closing of an initial public offering. Our board of directors has determined that the following non-employee directors do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under the rules of the NASDAQ Global Select Market: Jeffrey T. Diehl, Mark H. Mishler and Ronald V. Waters, III.

Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities and Exchange Act of 1934, as amended, or the Exchange Act. In order to be considered independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries; or be an affiliated person of the listed company or any of its subsidiaries.

In November 2013, our board of directors undertook a review of its composition, the composition of its committees and the independence of each director. Based upon information requested from and provided by each director concerning his background, employment and affiliations, our board of directors has determined that none of Messrs. Diehl, Mishler or Waters, representing three of our five directors, has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under NASDAQ Global Select Market rules. Our board of directors also determined that Mr. Waters, who serves on our audit committee, Mr. Mishler, who serves on our audit committee and compensation committee, and Mr. Diehl, who serves our audit committee, compensation committee and nominating and corporate governance committee, satisfy the independence standards for those committees established by applicable SEC and NASDAQ Global Select Market rules. In making this determination, our board of directors considered the relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director.

Role of the Board in Risk Oversight

One of the key functions of our board of directors is informed oversight of our risk management process. Our board of directors does not have a standing risk management committee, but rather administers this oversight function directly through the board of directors as a whole, as well as through its standing committees that address risks inherent in their respective areas of oversight. In particular, our board of directors is responsible for monitoring and assessing strategic risk exposure. Our audit committee is responsible for reviewing and discussing our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies with respect to risk assessment and risk management. Our audit committee also monitors compliance with legal and regulatory requirements, in addition to oversight of the performance of our external audit function. Our nominating and corporate governance committee monitors the effectiveness of our corporate governance guidelines. Our compensation committee reviews and discusses the risks arising from our compensation philosophy and practices applicable to all employees that are reasonably likely to have a materially adverse effect on us.

Board Committees

Our board of directors has established an audit committee, a compensation committee, and a nominating and corporate governance committee. Each of these committees will have the composition and responsibilities described below as of the closing of our initial public offering. Members serve on these committees until their resignations or until otherwise determined by our board of directors.

Audit Committee

Our audit committee is comprised of Messrs. Waters, Diehl and Mishler. Mr. Waters is the chairman of our audit committee. Each of Messrs. Waters, Diehl and Mishler satisfies the independence requirements of Rule 10A-3. Mr. Waters is an audit committee financial expert, as that term is defined under SEC rules, and possesses financial sophistication as defined under the rules of the NASDAQ Global Select Market. The designation does not impose on him any duties, obligations or liabilities that are greater than are generally imposed on members of our audit

committee and our board of directors. Our audit committee is directly responsible for, among other things:

- Selecting a firm to serve as the independent registered public accounting firm to audit our financial statements;
- Ensuring the independence of the independent registered public accounting firm;
- Discussing the scope and results of the audit with the independent registered public accounting firm, and reviewing, with management and that firm, our interim and year-end operating results;
- Establishing procedures for employees to submit anonymously concerns about questionable accounting or audit matters;
- Considering the adequacy of our internal controls and internal audit function;
- Reviewing material related party transactions or those that require disclosure; and
- Approving or, as permitted, pre-approving all audit and non-audit services to be performed by the independent registered public accounting firm.

Upon the completion of this offering, the composition of our audit committee will comply with all applicable requirements of the SEC and the listing requirements of the NASDAQ Global Select Market and all members of our audit committee will be independent directors.

Prior to the completion of this offering, our board of directors will adopt an audit committee charter to be effective upon the completion of this offering. We believe that the composition of our audit committee, and our audit committee's charter and functioning, will comply with the applicable requirements of the NASDAQ Global Select Market and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

Compensation Committee

Our compensation committee is comprised of Messrs. Mishler, Diehl and Sarowitz. Mr. Mishler is the chairman of our compensation committee. Each of Messrs. Mishler and Diehl is independent under the applicable requirements of the NASDAQ Global Select Market and SEC rules and regulations, is a non-employee director, as defined by Rule 16b-3 promulgated under the Exchange Act, and is an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1984, as amended. Our compensation committee is responsible for, among other things:

- Reviewing and approving, or recommending that our board of directors approve, the compensation of our executive officers;
- Reviewing and recommending to our board of directors the compensation of our directors;
- Reviewing and recommending to our board of directors the terms of any compensatory agreements with our executive officers;
- Administering our stock and equity incentive plans;
- Reviewing and approving, or making recommendations to our board of directors with respect to, incentive compensation and equity plans; and
- Reviewing our overall compensation philosophy.

Upon the completion of this offering, the composition of our compensation committee will comply with all applicable requirements of the SEC and the listing requirements of the NASDAQ Global Select Market, and after the phase in period under the applicable requirements of the SEC

and the listing requirements of the NASDAQ Global Select Market, upon which we intend to rely, all members of our compensation committee will be independent directors.

Prior to the completion of this offering, our board of directors will adopt a compensation committee charter to be effective upon the completion of this offering. We believe that the composition of our compensation committee, and our compensation committee's charter and functioning, will comply with the applicable requirements of the NASDAQ Global Select Market and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee is comprised of Messrs. Sarowitz, Beauchamp and Diehl. Mr. Sarowitz is the chairman of our nominating and corporate governance committee. Mr. Diehl is independent under the applicable requirements of the NASDAQ Global Select Market and SEC rules and regulations. Our nominating and corporate governance committee is responsible for, among other things:

- Identifying and recommending candidates for membership on our board of directors;
- Reviewing and recommending our corporate governance guidelines and policies;
- Reviewing proposed waivers of the code of conduct for directors and executive officers;
- Overseeing the process of evaluating the performance of our board of directors; and
- Assisting our board of directors on corporate governance matters.

Upon the completion of this offering, the composition of our nominating and corporate governance committee will comply with all applicable requirements of the SEC and the listing requirements of the NASDAQ Global Select Market, and after the phase in period under the applicable requirements of the SEC and the listing requirements of the NASDAQ Global Select Market, upon which we intend to rely, all members of our nominating and corporate governance committee will be independent directors.

Prior to the completion of this offering, our board of directors will adopt a nominating and corporate governance committee charter to be effective upon the completion of this offering. We believe that the composition of our nominating and corporate governance committee, and our nominating and corporate governance committee's charter and functioning, will comply with the applicable requirements of the NASDAQ Global Select Market and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

Compensation Committee Interlocks and Insider Participation

None of our executive officers has served as a member of the board of directors, or as a member of the compensation or similar committee, of any entity that has one or more executive officers who served on our board of directors or compensation committee during the year ended June 30, 2013. Mr. Sarowitz, our Executive Chairman, and Mr. Diehl, an affiliate of Adams Street Partners, are currently members of our compensation committee.

Distribution of Shares Held by Paylocity Management Holdings, LLC

In February 2014, Paylocity Management Holdings, LLC, at that time our controlling stockholder, distributed all of the shares of the company's capital stock held by Paylocity Management Holdings, LLC to its members. In that distribution, Paylocity Management Holdings, LLC distributed 35,173,898 shares of our common stock to Steven I. Sarowitz. We were

not a member or manager of Paylocity Management Holdings, LLC and were not a party to the distribution described above.

Series B Preferred Stock Financing

In June 2012, Paylocity Corporation issued 8,399,899 shares of Series B preferred stock to a total of eight accredited investors, all of whom are affiliates of Jeffrey T. Diehl, at a price of \$3.2481 per share or an aggregate purchase price of \$27,283,712. Each share of our Series B preferred stock will convert automatically into one share of common stock upon the completion of this offering.

Common Stock Redemption

In June 2012, we used the proceeds of the Series B preferred stock financing to redeem shares of common stock from certain of our stockholders. At the time of the redemption transaction, Steven I. Sarowitz was a member of Paylocity Management Holdings, LLC, formerly our controlling stockholder. Mr. Sarowitz redeemed certain of his equity interests in Paylocity Management Holdings, LLC in exchange for 6,773,191 shares of our common stock, which were subsequently redeemed by us in exchange for \$22,000,002.

Common Stock Purchase

In December 2010, Steven I. Sarowitz sold 1,689,050 shares of Paylocity Corporation common stock to certain of our existing stockholders, all of whom are affiliates of Jeffrey T. Diehl, in exchange for gross proceeds of \$2,499,794. Mr. Sarowitz redeemed certain of his equity interests in Paylocity Management Holdings, LLC in exchange for shares of Paylocity Corporation common stock, which were subsequently sold.

Employment Agreement

We have entered into an employment agreement with Steven I. Sarowitz that provides for salary and severance compensation. For more information regarding this employment agreement, see "Executive Compensation—Employment Agreements."

Indemnity Agreements

We have entered into indemnity agreements with Steven I. Sarowitz and Jeffrey T. Diehl. These agreements, among other things, require us to indemnify each such person to the fullest extent permitted by Delaware law and our amended and restated certificate of incorporation and bylaws to be effective immediately prior to the completion of this offering for expenses such as, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by such person in any action or proceeding, including any action by or in our right, arising out of the person's services as our director or executive officer or as the director or executive officer of any subsidiary of ours or any other company or enterprise to which the person provides services at our request. We also maintain directors' and officers' liability insurance.

Investor Rights Agreement

We have entered into an amended and restated investors' rights agreement with certain of our stockholders, including entities affiliated with Jeffrey T. Diehl and Steven I. Sarowitz. The amended and restated investors' rights agreement, as amended, among other things:

- Grants such stockholders certain registration rights with respect to shares of our common stock, including shares of common stock issued or issuable upon conversion of the shares of our Series A preferred stock and Series B preferred stock;
- Obligates us to deliver periodic financial statements to certain stockholders who are parties to the amended and restated investors' rights agreement, as amended, including entities affiliated with Jeffrey T. Diehl; and
- Grants a preemptive right to participate in sales of our shares by us, subject to specified exceptions, to certain stockholders, including entities affiliated with Jeffrey T. Diehl.

For more information regarding the registration rights provided in this agreement, please refer to the section titled "Description of Capital Stock—Registration Rights." The provisions of this agreement related to preemptive rights will terminate upon completion of this offering. This summary discusses certain material provisions of the amended and restated investors' rights agreement and is qualified by the amended and restated investors' rights agreement filed as an exhibit to the registration statement of which this prospectus is a part.

Voting Agreement

We have entered into an amended and restated voting agreement with certain of our stockholders, including entities affiliated with Jeffrey T. Diehl and Steven I. Sarowitz. The amended and restated voting agreement provides, among other things:

- For the voting of shares with respect to the constituency of the board of directors; and
- For the voting of shares with respect to certain transactions approved by a majority of the holders of our outstanding preferred stock.

This agreement will terminate upon completion of this offering. This is not a complete description of the amended and restated voting agreement and is qualified by the agreement, filed as an exhibit to the registration statement of which this prospectus is a part.

Right of First Refusal and Co-Sale Agreement

We have entered into an amended and restated right of first refusal and co-sale agreement with certain of our stockholders, including entities affiliated with Jeffrey T. Diehl and Steven I. Sarowitz. The amended and restated right of first refusal and co-sale agreement, among other things:

- Grants us certain rights of first refusal with respect to proposed transfers of our securities by certain stockholders; and
- Grants certain of our investors certain rights of first refusal and co-sale with respect to proposed transfers of our securities by certain stockholders.

This agreement will terminate upon completion of this offering. This is not a complete description of the amended and restated right of first refusal and co-sale agreement and is qualified by the agreement, filed as an exhibit to the registration statement of which this prospectus is a part.

Other Transactions with Steven I. Sarowitz

We were party to an oral agreement with Elite Sales Generation, Inc., or Elite, a company owned by Steven I. Sarowitz, pursuant to which Elite generated leads for our sales force. Elite was paid per lead generated. We paid Elite approximately \$172,000 in fiscal 2011, \$404,000 in fiscal 2012 and \$893,000 in fiscal 2013. We terminated our oral agreement with Elite in October 2013 and, in connection therewith, we hired substantially all of the employees of Elite.

We were party to a promissory note, as borrower, dated March 9, 2010, pursuant to which we borrowed \$500,000 from Steven I. Sarowitz. This promissory note bore interest at a rate of 8% per annum. We repaid the promissory note in full, together with approximately \$131,000 in interest to the noteholder, in March 2013.

We are party to a loan and security agreement with Commerce Bank & Trust Company. Steven I. Sarowitz is a guarantor of certain of our obligations under the loan and security agreement.

Code of Business Conduct and Ethics

Our board of directors has adopted a code of business conduct and ethics that will apply to all of our employees, officers and directors. The full text of our code of conduct will be posted on the Investor Relations section of our website upon completion of this offering. The reference to our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus. We intend to disclose future amendments to certain provisions of our code of conduct, or waivers of these provisions, on our website or in public filings.

EXECUTIVE COMPENSATION**Summary Compensation Table**

The following table presents compensation information for fiscal 2013 paid to or accrued for our principal executive officer and our two other most highly compensated persons serving as executive officers as of the end of fiscal 2013. We refer to these executive officers as our "named executive officers" for fiscal 2013.

Name	Year	Salary (\$)	Option Awards \$(1)	Bonuses \$(2)	All Other Compensation \$(4)	Total (\$)
Steven R. Beauchamp, President and Chief Executive Officer	2013	421,531	607,500	25,113	8,844	1,062,988
Steven I. Sarowitz, Executive Chairman	2013	304,887	—	100,117	6,389	411,393(5)
Michael R. Haske, Senior Vice President of Sales & Marketing	2013	254,147	364,500	175,506(3)	15,108	809,261

- (1) Amounts represent the aggregate grant date fair value of stock options granted during the year computed in accordance with FASB ASC Topic 718. Assumptions used in calculating these are described in Note 11 to our consolidated financial statements included elsewhere in this prospectus.
- (2) Includes discretionary annual bonus payouts determined by our compensation committee. Our board of directors establishes an annual business plan for the company. At the end of our fiscal year, our compensation committee considers each named executive officer's performance relative to the attainment of our business plan for the year and meets to discuss, develop and approve the bonus amounts payable to each named executive officer based on his performance. The compensation committee then recommends bonus amounts for our named executive officers to the board for approval.
- (3) Includes a bonus of up to 20% of base salary, as determined by our compensation committee based upon achievement of sales growth and productivity targets and a monthly bonus based on the prior month's commissionable sales by all sales personnel.
- (4) Consists of 401(k) matching contributions and phone and car allowances.
- (5) Excludes amounts payable to Elite Sales Generation, Inc., or Elite, a company owned by Steven I. Sarowitz. See "Certain Relationships and Related Party Transactions—Other Related Party Transactions" for a description of our former agreement with Elite.

Outstanding Equity Awards at June 30, 2013

The following table sets forth information regarding outstanding option and stock awards held by our named executive officers at June 30, 2013.

Name	Option Awards			Stock Awards		
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)(1)	Market Value of Shares That Have Not Vested (\$)(4)
Steven R. Beauchamp	—	750,000(2)	\$ 3.25	8/21/2022	—	—
Steven I. Sarowitz	—	—	—	—	—	—
Michael R. Haske	—	450,000(2)	\$ 3.25	8/21/2022	336,500(3)	—

- (1) Shares of common stock.
- (2) This option grant vests as to 1/4 of the total option grant on August 21, 2013, and thereafter as to 1/4 of the total option grant yearly.
- (3) Represents shares of restricted common stock that will vest in full upon the first to occur of (i) our initial public offering or (ii) a change in control, subject to the grantee's continued service. These shares will vest in full upon the completion of this offering.
- (4) The market price of our common stock is based upon the assumed initial public offering price of \$ _____ per share, the mid-point of the range set forth on the cover page of this prospectus.

Employment Agreements

The following is a summary of the employment agreements with our named executive officers as currently in effect.

Steven R. Beauchamp is party to an amended and restated employment agreement with us effective February 7, 2014. This employment agreement has no specific term and constitutes at-will employment. Mr. Beauchamp's current annual base salary is \$425,427 and such salary will be reviewed annually with a target increase of 5% per year based upon agreed upon financial objectives for each fiscal year. Mr. Beauchamp is also eligible to receive an annual bonus of up to 20% of his then base salary based upon achievements of our annual business plan objectives. Payment of any bonus to Mr. Beauchamp is subject to approval by our compensation committee. The employment agreement also provides that we will make available to Mr. Beauchamp customary fringe benefits.

Pursuant to his employment agreement, in the event Mr. Beauchamp's employment is terminated by us without cause as such term is defined in his employment agreement, we will be obligated to continue to pay him 100% of his then-current monthly base salary for 12 months following such termination. The severance benefits described above are contingent on Mr. Beauchamp executing a general release of claims. In addition, in the event of a change in control and provided that Mr. Beauchamp is still employed by us, 100% of Mr. Beauchamp's unvested options will become vested in full.

Steven I. Sarowitz is party to an employment agreement with us effective July 1, 2013. The employment agreement has a term of 24 months and automatically terminates at the end of the term. Mr. Sarowitz's current annual base salary is \$275,000, representing a decrease of approximately \$30,000 from fiscal 2013. Mr. Sarowitz is also eligible to participate in the fringe

benefits and benefit plans maintained by us from time to time, subject to the terms and conditions of such plans.

Pursuant to his employment agreement, in the event Mr. Sarowitz's employment is terminated by us without cause, as such term is defined in his employment agreement we will be obligated to pay him (i) 100% of his then-current monthly base salary for the remainder of the term of his employment agreement and (ii) to the extent Mr. Sarowitz participates in any of our group health plans immediately prior to the date of termination, a lump sum payment equal to the cost of monthly premiums for continued health insurance coverage under such plans for the remaining term of his employment agreement. The severance benefits described above are contingent on Mr. Sarowitz executing a general release of claims in our favor.

Michael R. Haske is party to an amended and restated employment agreement with us effective February 7, 2014. This employment agreement has no specific term and constitutes at-will employment. Mr. Haske's current annual base salary is \$258,000. Mr. Haske is also eligible to receive an annual bonus of up to 20% of his annual salary based upon the achievement of objectives established by us on a yearly basis relating to sales growth and productivity. Mr. Haske is further eligible to receive a monthly bonus based on the prior month's commissionable sales by all sales personnel. The employment agreement also provides that we will make available to Mr. Haske customary fringe benefits.

Pursuant to his employment agreement, in the event Mr. Haske's employment is terminated by us without cause, as such term is defined in his employment agreement, we will be obligated to pay him 100% of his then-current monthly base salary for 12 months, following such termination. The severance benefits described above are contingent on Mr. Haske executing a general release of claims in our favor. In addition, in the event of a change in control and provided that Mr. Haske is still employed by us, 100% of Mr. Haske's unvested options will become vested in full.

Director Compensation

We have not historically paid any cash or equity compensation to our directors for their services as directors or as members of committees of our board of directors.

On November 13, 2013, our board of directors adopted a cash compensation package for Messrs. Mishler and Waters. Messrs. Mishler and Waters are each entitled to receive a \$20,000 annual retainer fee for service on our board of directors. Mr. Waters will receive an annual fee of \$30,000 as compensation for his service as audit committee chairman. Mr. Mishler will receive an annual fee of \$5,000 as compensation for his service on the audit committee and an annual fee of \$10,000 as compensation for his service as compensation committee chairman. Prior to the completion of this offering, our board of directors may adopt an equity incentive package for our non-employee directors.

Limitations of Liability; Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a corporation's board of directors to grant, and authorizes a court to award, indemnity to officers, directors and other corporate agents. As permitted by Delaware law, our amended and restated certificate of incorporation to be effective immediately prior to the completion of this offering provides that, to the fullest extent permitted by Delaware law, no director will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director. Pursuant to Delaware law such protection would be not available for liability:

- For any breach of a duty of loyalty to us or our stockholders;

- For acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- For any transaction from which the director derived an improper benefit; or
- For an act or omission for which the liability of a director is expressly provided by an applicable statute, including unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law.

Our amended and restated certificate of incorporation to be effective immediately prior to the completion of this offering also provides that if Delaware law is amended after the approval by our stockholders of the amended and restated certificate of incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law.

Our amended and restated certificate of incorporation and amended and restated bylaws to be effective immediately prior to the completion of this offering further provide that we must indemnify our directors and officers to the fullest extent permitted by Delaware law. Our amended and restated bylaws also authorize us to indemnify any of our employees or agents and authorize us to secure insurance on behalf of any officer, director, employee or agent for any liability arising out of his or her action in that capacity, whether or not Delaware law would otherwise permit indemnification.

In addition, our amended and restated bylaws to be effective immediately prior to the completion of this offering provide that we are required to advance expenses to our directors and officers as incurred in connection with legal proceedings against them for which they may be indemnified and that the rights conferred in the amended and restated bylaws are not exclusive.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and bylaws to be effective immediately prior to the completion of this offering may discourage stockholders from bringing a lawsuit against our directors and officers for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought, and we are not aware of any threatened litigation that may result in material claims for indemnification. We believe that our indemnity agreements and our amended and restated certificate of incorporation and bylaw provisions to be effective immediately prior to the completion of this offering are necessary to attract and retain qualified persons as directors and executive officers.

Indemnity Agreements

We have entered into indemnity agreements with each of our directors and certain of our executive officers. These agreements, among other things, require us to indemnify each such director and officer to the fullest extent permitted by Delaware law and our amended and restated certificate of incorporation and bylaws to be effective immediately prior to the completion of this offering for expenses such as, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action by or in our right, arising out of the person's services as our director or executive officer or as the director or executive officer of any subsidiary of ours or any other company or enterprise to

which the person provides services at our request. We also maintain directors' and officers' liability insurance.

Benefit Plans

2008 Equity Incentive Plan

Our 2008 Equity Incentive Plan, as amended, was adopted by our board of directors and approved by our stockholders on May 13, 2008, and was most recently amended in June 2012. Our 2008 Equity Incentive Plan provides for the grant of incentive stock options, nonstatutory stock options, stock awards (both restricted and unrestricted) and restricted stock unit awards to our employees, directors, consultants and independent contractors. As of December 31, 2013, options to purchase 3,563,587 shares of our common stock were outstanding and 443,770 shares of our common stock were reserved for future grant under this plan. As of December 31, 2013, in addition to incentive stock options and nonqualified stock options, we have issued 403,800 shares of restricted common stock under this plan.

We will not grant any additional awards under our 2008 Equity Incentive Plan. Instead, we will grant equity awards under our 2014 Equity Incentive Plan which was approved by our board of directors and stockholders in February 2014. However, our 2008 Equity Incentive Plan will continue to govern the terms and conditions of all outstanding equity awards granted under the 2008 Equity Incentive Plan.

The standard form of option agreement under the 2008 Equity Incentive Plan provides that options will vest 25% on the first anniversary of the vesting commencement date, with the remainder vesting in equal annual installments over the next three years, subject to continued service through each applicable vesting date. Under our 2008 Equity Incentive Plan, our board of directors has the authority to provide for accelerated vesting in connection with a change in control, as defined in the 2008 Equity Incentive Plan. In the event of a change in control, our board of directors may require the substitution of outstanding equity awards for similar rights in the acquiring entity. In the alternative, our board of directors may provide that all outstanding options be canceled in exchange for an amount per option share equal to the greater of (i) the highest per share price offered to the holders of our common stock in the change in control minus the exercise price per option share or (ii) the fair market value of a share of our common stock on the date of the change in control minus the exercise price per option share. In the case of outstanding shares of restricted stock or restricted stock units, our board of directors may provide that such shares or units be canceled in exchange for an amount per share or unit equal to the greater of (i) the highest per share price offered to the holders of our common stock in the change in control or (ii) the fair market value of a share of our common stock on the date of the change in control.

Our 2008 Equity Incentive Plan provides that our board of directors, or its designated committee, will equitably and proportionally adjust or substitute outstanding awards upon certain events, including, without limitation, changes in our capitalization through stock splits, recapitalizations, mergers or consolidations. The standard form of option agreement under our 2008 Equity Incentive Plan provides that the participants will not offer, sell, contract to sell, pledge, hypothecate, grant any option to purchase or make any short sale of, or otherwise dispose of any shares of our stock or any rights to acquire our stock for such period of time from and after the effective date of this registration statement as may be established by the underwriter of our initial public offering.

2014 Equity Incentive Plan

Our 2014 Equity Incentive Plan was approved by our board of directors and our stockholders in February 2014. It is intended to make available incentives that will assist us to attract, retain and

motivate employees (including officers), consultants and directors. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units and other cash-based or stock-based awards.

A total of 7,052,277 shares of our common stock are initially authorized and reserved for issuance under the 2014 Equity Incentive Plan. This reserve will automatically increase on January 1, 2015 and each subsequent anniversary through 2024, by an amount equal to the smaller of (a) 4.5% of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by our board of directors. The 2014 Equity Incentive Plan provides that the maximum aggregate number of shares of our common stock that may be issued under the 2014 Equity Incentive Plan pursuant to the exercise of incentive stock options shall not exceed 7,052,277 shares. The limit on the issuance of shares of our common stock pursuant to the exercise of incentive stock options will automatically increase on January 1, 2015 and each subsequent anniversary through 2024, by an amount equal to the smaller of (a) the annual increase to the share reserve in the 2014 Equity Incentive Plan or (b) 7,500,000 shares.

Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the 2014 Equity Incentive Plan and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to awards which expire or are cancelled or forfeited will again become available for issuance under the 2014 Equity Incentive Plan. The shares available will not be reduced by awards settled in cash or by shares withheld to satisfy tax withholding obligations; the net number of shares issued upon the exercise of stock appreciation rights or options exercised by means of a net exercise or by tender of previously owned shares will be deducted from the shares available under the 2014 Equity Incentive Plan.

The 2014 Equity Incentive Plan will be generally administered by the compensation committee of our board of directors. Subject to the provisions of the 2014 Equity Incentive Plan, the compensation committee will determine in its discretion the persons to whom and the times at which awards are granted, the sizes of such awards and all of their terms and conditions. The compensation committee will have the authority to construe and interpret the terms of the 2014 Equity Incentive Plan and awards granted under it. The 2014 Equity Incentive Plan provides, subject to certain limitations, for indemnification by us of any director, officer or employee against all judgments, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the 2014 Equity Incentive Plan.

The 2014 Equity Incentive Plan authorizes the compensation committee, without further stockholder approval, to provide for the cancellation of stock options or stock appreciation rights with exercise prices in excess of the fair market value of the underlying shares of common stock in exchange for new options or other equity awards with exercise prices equal to the fair market value of the underlying common stock or a cash payment or to amend such awards to reduce the exercise price thereof to the fair market value of the common stock on the date of amendment.

Awards may be granted under the 2014 Equity Incentive Plan to our employees, (including officers), directors or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. All awards will be evidenced by a written agreement between us and the holder of the award and may include any of the following:

- *Stock options.* We may grant nonstatutory stock options or incentive stock options (as described in Section 422 of the Internal Revenue Code), each of which gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to purchase a number of shares of our common stock at an exercise

price per share determined by the administrator, which may not be less than the fair market value of a share of our common stock on the date of grant.

- *Stock appreciation rights.* A stock appreciation right gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to receive the appreciation in the fair market value of our common stock between the date of grant of the award and the date of its exercise. We may pay the appreciation in shares of our common stock or in cash, except that a stock appreciation right granted in tandem with a related option is payable only in stock.
- *Restricted stock.* The administrator may grant restricted stock awards either as a bonus or as a purchase right at such price as the administrator determines. Shares of restricted stock remain subject to forfeiture until vested, based on such terms and conditions as the administrator specifies. Holders of restricted stock will have the right to vote the shares and to receive any dividends paid, except that the dividends may be subject to the same vesting conditions as the related shares.
- *Restricted stock units.* Restricted stock units represent rights to receive shares of our common stock (or their value in cash) at a future date without payment of a purchase price (unless required under applicable state corporate laws), subject to vesting or other conditions specified by the administrator. Holders of restricted stock units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the administrator may grant restricted stock units that entitle their holders to dividend equivalent rights.
- *Performance shares and performance units.* Performance shares and performance units are awards that will result in a payment to their holder only if specified performance goals are achieved during a specified performance period. Performance share awards are rights denominated in shares of our common stock, while performance unit awards are rights denominated in dollars. The administrator establishes the applicable performance goals based on one or more measures of business performance enumerated in the 2014 Equity Incentive Plan, such as revenue, gross margin, net income or total stockholder return. To the extent earned, performance share and unit awards may be settled in cash or in shares of our common stock. Holders of performance shares or performance units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the administrator may grant performance shares that entitle their holders to dividend equivalent rights.
- *Cash-based awards and other stock-based awards.* The administrator may grant cash-based awards that specify a monetary payment or range of payments or other stock-based awards that specify a number or range of shares or units that, in either case, are subject to vesting or other conditions specified by the administrator. Settlement of these awards may be in cash or shares of our common stock, as determined by the administrator. The holder will have no voting rights or right to receive cash dividends unless and until shares of our common stock are issued pursuant to the award. The administrator may grant equivalent dividend rights with respect to other stock-based awards.

In the event of a change in control as described in the 2014 Equity Incentive Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the 2014 Equity Incentive Plan or substitute substantially equivalent awards. Any awards which are not assumed or continued in connection with a change in control or are not exercised or settled prior to the change in control will terminate effective as of the time of the change in control. Our compensation committee may provide for the acceleration of vesting of any or all outstanding awards upon such terms and to such extent as it determines, except that the vesting of all awards

held by members of the board of directors who are not employees will automatically be accelerated in full except to the extent assumed, continued or substituted by the acquiring or successor entity. The 2014 Equity Incentive Plan also authorizes our compensation committee, in its discretion and without the consent of any participant, to cancel each or any outstanding award denominated in shares upon a change in control in exchange for a payment to the participant with respect to each share subject to the cancelled award of an amount equal to the excess of the consideration to be paid per share of common stock in the change in control transaction over the exercise price per share, if any, under the award.

The 2014 Equity Incentive Plan will continue in effect until it is terminated by the administrator, provided, however, that all awards will be granted, if at all, within 10 years of its effective date. The administrator may amend, suspend or terminate the 2014 Equity Incentive Plan at any time, provided that without stockholder approval, the plan cannot be amended to increase the number of shares authorized, change the class of persons eligible to receive incentive stock options, or effect any other change that would require stockholder approval under any applicable law or listing rule.

2014 Employee Stock Purchase Plan

In February 2014, our board of directors adopted and our stockholders approved our 2014 Employee Stock Purchase Plan, or ESPP.

A total of 1,500,000 shares of our common stock are available for sale under our ESPP. In addition, our ESPP provides for annual increases in the number of shares available for issuance under the ESPP on January 1, 2015 and each subsequent anniversary through 2024, equal to the smallest of:

- 600,000 shares;
- 0.75% of the issued and outstanding shares of our common stock on the immediately preceding December 31; or
- such other amount as may be determined by our board of directors.

Appropriate adjustments will be made in the number of authorized shares, certain other limits in the ESPP and in outstanding purchase rights to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to purchase rights which expire or are cancelled will again become available for issuance under the ESPP.

Our compensation committee will administer the ESPP and have full authority to interpret the terms of the ESPP. The ESPP provides, subject to certain limitations, for indemnification by us of any director, officer or employee against all judgments, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the ESPP.

All of our employees, including our named executive officers, are eligible to participate if they are customarily employed by us for more than 20 hours per week and more than five months in any calendar year. However, an employee may not be granted rights to purchase stock under our ESPP if such employee:

- immediately after the grant would own stock or options to purchase stock possessing 5.0% or more of the total combined voting power or value of all classes of our capital stock; or
- holds rights to purchase stock under all of our employee stock purchase plans that would accrue at a rate that exceeds \$25,000 worth of our stock for each calendar year in which the right to be granted would be outstanding at any time.

Our ESPP is intended to qualify under Section 423 of the Internal Revenue Code. The ESPP will typically be implemented through consecutive offering periods, generally starting on the first trading day on or after May 15 and November 15 of each year, except for the first such offering period, which will commence on a date to be determined by the administrator. The administrator may, in its discretion, modify the terms of future offering periods, including establishing offering periods of up to 27 months and providing for multiple purchase dates.

Our ESPP permits participants to purchase common stock through payroll deductions of up to 10% of their eligible cash compensation, which includes a participant's regular base wages or salary and payments of overtime, shift premiums and paid time off, payments in lieu of notice, annual or other incentive bonuses, commissions, profit-sharing distributions and other incentive-type payments before deduction of taxes and certain compensation deferrals.

Amounts deducted and accumulated from participant compensation are used to purchase shares of our common stock at the end of each offering period. Unless otherwise provided by the administrator, the purchase price of the shares will be 85% of the lower of the fair market value of our common stock on the first trading day of the offering period or on the purchase date provided that no more than the lesser of (i) an amount equal to \$2,083.33 multiplied by the number of months in the offering period (rounded to the nearest whole month) or (ii) 250 shares multiplied by the number of months in the offering period (rounded to the nearest whole month) may be purchased by any participant in any offering period. Participants may end their participation at any time during an offering period and will receive a refund of their account balances not yet used to purchase shares. Participation ends automatically upon termination of employment with us.

Prior to the beginning of any offering period, the administrator may alter the maximum number of shares that may be purchased by any participant during the offering period or specify a maximum aggregate number of shares that may be purchased by all participants in the offering period. If insufficient shares remain available under the plan to permit all participants to purchase the number of shares to which they would otherwise be entitled, the administrator will make a pro rata allocation of the available shares. Any amounts withheld from participants' compensation in excess of the amounts used to purchase shares will be refunded, without interest. Any amendment to the ESPP that would authorize the sale of more shares than are then authorized for issuance under the ESPP or would change the definition of the corporations that may be designated by our compensation committee as participating companies in the ESPP must be approved by our stockholders within twelve months of the adoption of such amendment.

A participant may not transfer rights granted under the ESPP other than by will, the laws of descent and distribution or as otherwise provided under the ESPP. In the event of a change in control, an acquiring or successor corporation may assume our rights and obligations under outstanding purchase rights or substitute substantially equivalent purchase rights. If the acquiring or successor corporation does not assume or substitute for outstanding purchase rights, then the purchase date of the offering periods then in progress will be accelerated to a date prior to the change in control. Our ESPP will continue in effect until terminated by the administrator. Our compensation committee has the authority to amend, suspend or terminate our ESPP at any time.

401(k) Plan

We maintain a 401(k) plan with a safe harbor matching provision that covers all eligible employees. We match 50% of the employees' contributions up to 6% of their gross pay. Contributions were approximately \$332,000, \$514,000 and \$720,000 for the years ended June 30, 2011, 2012 and 2013, respectively.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since June 30, 2010, there has not been any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded \$120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had a direct or indirect material interest, other than compensation arrangements with directors and executive officers, which are described where required in the sections titled "Management" and "Executive Compensation" and the transactions described below.

Distribution of Shares Held by Paylocity Management Holdings, LLC

In February 2014, Paylocity Management Holdings, LLC, at that time our controlling stockholder, distributed all of the shares of the company's capital stock held by Paylocity Management Holdings, LLC to its members. The following table summarizes the shares of our capital stock that were distributed by Paylocity Management Holdings, LLC to members of our board of directors, our executive officers and persons who hold more than 5% of any class of our voting securities and affiliates of such persons.

<u>Name of Stockholder</u>	<u>Shares of Common Stock Received</u>
Steven I. Sarowitz	35,173,898
Steven R. Beauchamp	4,487,317
Michael R. Haske	2,255,188
Jenifer L. Page	788,624
Total	42,705,027

We were not a member or manager of Paylocity Management Holdings, LLC, and were not a party to the distribution described above.

Series B Preferred Stock Financing

In June 2012, Paylocity Corporation issued 8,399,899 shares of Series B preferred stock to a total of eight accredited investors at a price of \$3.2481 per share or an aggregate purchase price of \$27,283,712. Each share of our Series B preferred stock will convert automatically into one share of common stock upon the completion of this offering. The following table summarizes the Series B preferred stock purchased by members of our board of directors and persons who hold more than 5% of any class of our voting securities.

<u>Purchaser</u>	<u>Shares of Series B Preferred Stock</u>	<u>Aggregate Purchase Price</u>
Entities affiliated with Adams Street Partners(1)	8,399,899	\$ 27,283,712

- (1) Consists of shares purchased by Adams Street 2006 Direct Fund, L.P., Adams Street 2007 Direct Fund, L.P., a holder of more than 5% of a class of our voting securities, Adams Street 2008 Direct Fund, L.P., a holder of more than 5% of a class of our voting securities, Adams Street 2009 Direct Fund, L.P., Adams Street 2010 Direct Fund, L.P., Adams Street 2011 Direct Fund LP, Adams Street 2012 Direct Fund LP and Adams Street Co-Investment Fund II, L.P. Jeffrey T. Diehl, an affiliate of Adams Street Partners, is a member of our board of directors.

Common Stock Redemption

In June 2012, we used the proceeds of the Series B preferred stock financing to redeem shares of common stock from certain of our stockholders. At the time of the redemption transaction, the stockholders listed below were members of Paylocity Management Holdings, LLC, formerly our controlling stockholder. The stockholders listed below redeemed certain of their equity interests in Paylocity Management Holdings, LLC in exchange for shares of our common stock, which were subsequently redeemed by us, as set forth below.

The following table summarizes the shares of common stock redeemed from members of our board of directors, our executive officers and persons who hold more than 5% of any class of our voting securities and affiliates of such persons.

<u>Name of Stockholder</u>	<u>Shares of Common Stock</u>	<u>Total Redemption Price</u>
Steven I. Sarowitz	6,773,191	\$ 22,000,002
Steven R. Beauchamp	800,468	2,600,000
Michael R. Haske	385,000	1,250,519
Jenifer L. Page	197,722	642,221
Peter J. McGrail	74,198	241,003
Total	8,230,579	\$ 26,733,745

Common Stock Purchase

In December 2010, Steven I. Sarowitz sold 1,689,050 shares of Paylocity Corporation common stock to certain of our existing stockholders in exchange for gross proceeds of \$2,499,794. Mr. Sarowitz redeemed certain of his equity interests in Paylocity Management Holdings, LLC in exchange for shares of Paylocity Corporation common stock, which were subsequently sold. We were not a member or manager of Paylocity Management Holdings, LLC, and were not a party to the purchase. The table below summarizes these sales.

<u>Purchaser</u>	<u>Shares of Common Stock</u>	<u>Aggregate Purchase Price</u>
Entities affiliated with Adams Street Partners(1)	1,689,050	\$ 2,499,794

- (1) Consists of shares purchased by Adams Street 2006 Direct Fund, L.P., Adams Street 2007 Direct Fund, L.P., a holder of more than 5% of a class of our voting securities and Adams Street 2008 Direct Fund, L.P., a holder of more than 5% of a class of our voting securities. Jeffrey T. Diehl, an affiliate of Adams Street Partners, is a member of our board of directors.

Equity Issued to Executive Officers and Directors

We have granted stock options to our executive officers and directors, as more fully described in "Executive Compensation—Summary Compensation Table."

Employment Agreements

We have entered into employment agreements with certain of our executive officers that provide for salary, bonus and severance compensation. For more information regarding these employment agreements, see "Executive Compensation—Employment Agreements."

Indemnity Agreements

We have entered into indemnity agreements with each of our directors and certain of our executive officers. These agreements, among other things, require us to indemnify each such director and officer to the fullest extent permitted by Delaware law and our amended and restated certificate of incorporation and bylaws to be effective immediately prior to the completion of this offering for expenses such as, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action by or in our right, arising out of the person's services as our director or executive officer or as the director or executive officer of any subsidiary of ours or any other company or enterprise to which the person provides services at our request. We also maintain directors' and officers' liability insurance.

Investor Rights Agreement

We have entered into an amended and restated investors' rights agreement with certain of our stockholders, including entities affiliated with Adams Street Partners, Steven R. Beauchamp, Steven I. Sarowitz, Michael R. Haske and Jenifer L. Page. The amended and restated investors' rights agreement, as amended, among other things:

- Grants such stockholders certain registration rights with respect to shares of our common stock, including shares of common stock issued or issuable upon conversion of the shares of our Series A preferred stock and Series B preferred stock;
- Obligates us to deliver periodic financial statements to certain stockholders who are parties to the amended and restated investors' rights agreement, as amended, including entities affiliated with Adams Street Partners; and
- Grants a preemptive right to participate in sales of our shares by us, subject to specified exceptions, to certain stockholders, including entities affiliated with Adams Street Partners, Steven R. Beauchamp and Michael R. Haske.

For more information regarding the registration rights provided in this agreement, please refer to the section titled "Description of Capital Stock—Registration Rights." The provisions of this agreement related to preemptive rights will terminate upon completion of this offering. This summary discusses certain material provisions of the amended and restated investors' rights agreement and is qualified by the amended and restated investors' rights agreement filed as an exhibit to the registration statement of which this prospectus is a part.

Voting Agreement

We have entered into an amended and restated voting agreement with certain of our stockholders, including entities affiliated with Adams Street Partners, Steven R. Beauchamp, Steven I. Sarowitz, Michael R. Haske and Jenifer L. Page. The amended and restated voting agreement provides, among other things:

- For the voting of shares with respect to the constituency of the board of directors; and
- For the voting of shares with respect to certain transactions approved by a majority of the holders of our outstanding preferred stock.

This agreement will terminate upon completion of this offering. This is not a complete description of the amended and restated voting agreement and is qualified by the agreement, filed as an exhibit to the registration statement of which this prospectus is a part.

Right of First Refusal and Co-Sale Agreement

We have entered into an amended and restated right of first refusal and co-sale agreement with certain of our stockholders, including entities affiliated with Adams Street Partners, Steven R. Beauchamp, Steven I. Sarowitz, Michael R. Haske and Jenifer L. Page. The amended and restated right of first refusal and co-sale agreement, among other things:

- Grants us certain rights of first refusal with respect to proposed transfers of our securities by certain stockholders; and
- Grants certain of our investors certain rights of first refusal and co-sale with respect to proposed transfers of our securities by certain stockholders.

This agreement will terminate upon completion of this offering. This is not a complete description of the amended and restated right of first refusal and co-sale agreement and is qualified by the agreement, filed as an exhibit to the registration statement of which this prospectus is a part.

Other Related Party Transactions

We were party to an oral agreement with Elite Sales Generation, Inc., or Elite, a company owned by Steven I. Sarowitz, an executive officer, director and a holder of more than 5% of any class of our voting securities, pursuant to which Elite generated leads for our sales force. Elite was paid per lead generated. We paid Elite approximately \$172,000 in fiscal 2011, \$404,000 in fiscal 2012 and \$893,000 in fiscal 2013. We terminated our oral agreement with Elite in October 2013 and, in connection therewith, we hired substantially all of the employees of Elite.

We were party to two promissory notes, as borrower, each dated March 9, 2010, pursuant to which we borrowed \$500,000 from Steven I. Sarowitz, an executive officer, director and a holder of more than 5% of any class of our voting securities, and \$500,000 from Daniel L. Miller, a former officer and a current stockholder. These promissory notes bore interest at a rate of 8% per annum. We repaid each promissory note in full, together with approximately \$131,000 in interest to each noteholder, in March 2013.

We are party to a loan and security agreement with Commerce Bank & Trust Company. Steven I. Sarowitz, an executive officer, director and a holder of more than 5% of any class of our voting securities, is a guarantor of certain of our obligations under the loan and security agreement.

Policies and Procedures for Related Party Transactions

As provided by our audit committee charter to be effective upon the closing of this offering, our audit committee must review and approve in advance any related party transaction. Pursuant to our Related Party Transactions Policy to be effective upon the consummation of the offering, all of our directors, officers and employees are required to report to our audit committee any such related party transaction prior to its completion. Prior to the creation of our current audit committee, our full board of directors reviewed related party transactions. Each of the related party transactions described above that was submitted to our board of directors was approved by disinterested members of our board of directors after disclosure of the interest of the related party in the transaction.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table and footnotes set forth information with respect to the beneficial ownership of our common stock as of February 10, 2014, subject to certain assumptions set forth in the footnote and as adjusted to reflect the sale of the shares of common stock offered in the public offering under this prospectus for:

- Each stockholder, or group of affiliated stockholders, who we know beneficially owns more than 5% of the outstanding shares of our common stock;
- Each of our named executive officers;
- Each of our directors;
- All of our directors and executive officers as a group; and
- Each of the selling stockholders.

Beneficial ownership of shares is determined under the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power and includes shares issuable upon exercise of options held by the person which may be exercised or converted within 60 days of February 10, 2014. Except as indicated by footnote, and subject to applicable community property laws, we believe each person identified in the table possesses sole voting and investment power with respect to all shares of common stock beneficially owned by them. Shares of common stock subject to options currently exercisable or exercisable within 60 days of February 10, 2014, are deemed to be outstanding for calculating the number and percentage of outstanding shares of the person holding such options, but are not deemed to be outstanding for calculating the percentage ownership of any other person.

Applicable percentage ownership in the following table is based on 66,286,248 shares of common stock outstanding as of February 10, 2014, assuming the conversion of our preferred stock into common stock and the vesting of our restricted stock awards, and _____ shares of common stock outstanding after completion of this offering.

Unless otherwise indicated and subject to applicable community property laws, to our knowledge, each stockholder named in the following table possesses sole voting and investment power over the shares listed, except for those jointly owned with that person's spouse. Unless otherwise noted below, the address of each person listed on the table is c/o 3850 N. Wilke Road, Arlington Heights, IL 60004.

Name of Beneficial Owner	Shares Beneficially Owned Prior to the Offering		Number of Shares Offered	Shares Beneficially Owned After the Offering		Number of Shares to be Sold if Underwriters' Option is Exercised in Full	Shares Beneficially Owned After the Offering if Underwriters' Option is Exercised in Full	
	Shares	Percentage		Shares	Percentage		Shares	Percentage
5% Stockholders:								
Entities affiliated with Adams Street Partners(1)	19,588,949	29.6%						
Named Executive Officers and Directors:								
Jeffrey T. Diehl(1)	19,588,949	29.6%						
Steven I. Sarowitz(2)	35,173,898	53.1%						
Steven R. Beauchamp(3)	4,674,817	7.0%						
Michael R. Haske(4)	2,704,188	4.1%						
Mark H. Mishler	—	—						
Ronald V. Waters, III	—	—						
All executive officers and directors as a group (9 persons)(5)	63,606,705	94.6%						

(1) Represents 3,791,364 shares (2,829,729 shares of Series A preferred stock, 458,524 shares of Series B preferred stock and 503,111 shares of common stock) held by Adams Street 2006 Direct Fund, L.P., or AS 2006, 4,281,494 (3,195,543 shares of Series A preferred stock, 517,800 shares of Series B preferred stock and 568,151 shares of common stock) shares held by

Adams Street 2007 Direct Fund, L.P., or AS 2007, 6,122,952 shares (3,474,728 shares of Series A preferred stock, 2,030,436 shares of Series B preferred stock and 617,788 shares of common stock) held by Adams Street 2008 Direct Fund, L.P., or AS 2008, 1,269,196 shares of Series B preferred stock held by Adams Street 2009 Direct Fund, L.P., or AS 2009, 720,972 shares of Series B preferred stock held by Adams Street 2010 Direct Fund, L.P., or AS 2010, 579,228 shares of Series B preferred stock held by Adams Street 2011 Direct Fund LP, or AS 2011, 581,291 shares of Series B preferred stock held by Adams Street 2012 Direct Fund LP, or AS 2012 and 2,242,452 shares of Series B preferred stock held by Adams Street Co-Investment Fund II, L.P., or AS CIF. The shares owned by AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2012 and AS CIF may be deemed to be beneficially owned by Adams Street Partners, LLC, or ASP, the managing member of the general partner of each of AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2012 and AS CIF. Thomas D. Berman, David Brett, Jeffrey T. Diehl, Elisha P. Gould III, Michael S. Lynn, Robin P. Murray, Sachin Tulyani, Craig D. Waslin and David Welsh, each of whom is a partner of Adams Street Partners, LLC (or a subsidiary thereof) may be deemed to have shared voting and investment power over the shares. The address of each of AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2012, AS CIF and ASP is One North Wacker Drive, Suite 2200, Chicago, Illinois 60606. Mr. Diehl is a member of our board of directors. For a discussion of our material relationships with AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2012, AS CIF, ASP and Mr. Diehl, see the section titled "Certain Relationships and Related Party Transactions." Upon the closing of this offering, all outstanding shares of our Series A preferred stock and Series B preferred stock will be automatically converted into shares of common stock.

- (2) Mr. Sarowitz is our Executive Chairman and is a director. For a discussion of our material relationships with Mr. Sarowitz, see the section entitled "Certain Relationships and Related Party Transactions."
- (3) Includes 187,500 shares issuable upon the exercise of options exercisable within 60 days of February 10, 2014. Mr. Beauchamp is our President and Chief Executive Officer and is a director. For a discussion of our material relationships with Mr. Beauchamp, see the section titled "Certain Relationships and Related Party Transactions."
- (4) Includes 336,500 shares of restricted stock that will vest in full upon the completion of this offering and 112,500 shares issuable upon the exercise of options exercisable within 60 days of February 10, 2014. Mr. Haske is our Senior Vice President of Sales & Marketing. For a discussion of our material relationships with Mr. Haske, see the section titled "Certain Relationships and Related Party Transactions."
- (5) Includes 976,229 shares issuable upon the exercise of options exercisable within 60 days of February 10, 2014.

DESCRIPTION OF CAPITAL STOCK

The following is a summary of our capital stock and certain provisions of our amended and restated certificate of incorporation and bylaws to be effective upon the completion of this offering. This summary does not purport to be complete and is qualified by the provisions of our restated certificate of incorporation and amended and restated bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

Immediately following the closing of this offering, our authorized capital stock will consist of _____ shares of common stock, \$0.001 par value, and _____ shares of undesignated preferred stock, \$0.001 par value.

Common Stock

As of December 31, 2013, there were 66,286,248 shares of common stock outstanding that were held of record by approximately 11 stockholders after giving effect to the conversion of our preferred stock into shares of common stock and the vesting of our restricted stock awards. There will be _____ shares of common stock outstanding (assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options) after giving effect to the sale of the shares of common stock offered by this prospectus.

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences that may be applicable to any preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive ratably any dividends declared by our board of directors out of assets legally available. See the section titled "Dividend Policy." Upon our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding shares of preferred stock. Holders of common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

Upon the closing of this offering, all outstanding shares of our Series A preferred stock and Series B preferred stock will be automatically converted into shares of common stock. Pursuant to our amended and restated certificate of incorporation, our board of directors will have the authority, without further action by the stockholders, to issue from time to time up to _____ shares of preferred stock, in one or more series. Our board will determine the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of any series, any or all of which may be greater than or senior to the rights of the common stock. The issuance of preferred stock could adversely affect the voting power of holders of common stock and reduce the likelihood that such holders will receive dividend payments and payments upon liquidation, and the likelihood that holders of preferred stock will receive dividend payments and payments upon liquidation may have the effect of delaying, deterring or preventing a change in control, which could depress the market price of our common stock. We have no current plan to issue any shares of preferred stock.

Registration Rights

We have entered into an amended and restated investor rights agreement dated as of June 29, 2012 with certain holders of our common and preferred stock. Subject to the terms of this

agreement, holders of 19,588,949 shares (on an as converted to common stock basis) have full registration rights, which includes demand registration rights, piggyback registration rights, and short-form registration rights. Furthermore, holders of 46,293,499 shares of our common stock have piggyback registration rights, short-form registration rights and the right to join in demand registrations, but do not have the right to initiate a demand registration. The following description of the terms of the investor rights agreement is intended as a summary only and is qualified by reference to the registration rights agreement filed as an exhibit to the registration statement, of which this prospectus forms a part.

Each party to the investor rights agreement has agreed not to sell or otherwise dispose of any shares of our common stock for a period of 180 days following the effective date of this offering.

Demand Registration Rights

Following this offering, subject to certain exceptions, the holders of not less than 50% of then outstanding registrable securities (on an as converted to common stock basis) with full registration rights may demand that we effect a registration under the Securities Act covering the public offering and sale of all or part of the registrable securities held by such stockholders. Upon such demand, we must provide written notice to all other holders of registrable securities, who may likewise demand that their registrable securities be included in such offering. We must use commercially reasonable efforts to effect the registration of the registrable securities that we have been requested to register, together with all other registrable securities that we may have been requested to register by other stockholders pursuant to the piggyback registration rights described below. These registration rights are subject to specified conditions and limitations, including the right of the underwriters, if any, to limit the number of shares included in any such registration under specified circumstances. In addition, we are not obligated to effect a demand registration (i) prior to 180 days following the effective date of the registration statement pertaining to this offering, (ii) prior to 90 days following the filing date of a registration statement that does not relate to an initial public offering, (iii) if we have already effected two demand registrations that have been declared or ordered effective or (iv) if the aggregate offering price, net of underwriting expenses and discounts, is less than \$10 million.

We have the ability to delay the filing of a registration statement, subject to certain restrictions, if the board of directors determines in its judgment that it would be materially detrimental to us and our stockholders for such registration to be effected at such time.

Piggyback Registration Rights

All stockholders party to the investor rights agreement, holding a total of 65,882,448 shares (on an as converted to common stock basis) have piggyback registration rights. Under these provisions, if we propose to register any securities under the Securities Act, whether on our own behalf or on behalf of other stockholders, these stockholders have the right to include their shares in the registration statement, subject to certain exceptions including a registration related solely to an employee benefit plan. These piggyback registration rights are subject to specified conditions and limitations, including the right of the underwriters to limit, or in the case of this offering, completely exclude the number of shares included in any such registration under specified circumstances.

Short-Form Registration Rights

All stockholders party to the investor rights agreement have short-form registration rights. Under these provisions, the holders of at least 30% of shares of registrable securities then outstanding may request in writing that we effect a registration on Form S-3 under the Securities

Act. Upon such request, we must also provide written notice of the request to all other holders of registrable securities, who may likewise request that their registrable securities be included in such offering. As soon as reasonably practical after such requests for registration, we are obligated to effect a registration on Form S-3 for such registrable securities. These registration rights are subject to specified conditions and limitations, including the right of the underwriters, if any, to limit the number of shares included in any such registration under specified circumstances. In addition, we are not obligated to effect a short-form registration if (i) we are not eligible to file a registration statement on Form S-3, (ii) the proposed aggregate offering price of the shares to be registered by the holders requesting registration is less than \$1 million or (iii) such request is prior to six months following the effectiveness of the preceding requested short-form registration.

We have the ability to delay the filing of a registration statement, subject to certain restrictions, if the board of directors determines in its judgment that it would be materially detrimental to us and our stockholders for such registration to be effected at such time.

Expenses of Registration

With specified exceptions, we are required to pay all expenses of registration, excluding underwriters' discounts, commissions and stock transfer taxes.

Anti-Takeover Provisions Under Our Charter and Bylaws and Delaware Law

Certain provisions of Delaware law, our amended and restated certificate of incorporation and bylaws contain provisions that could have the effect of delaying, deferring or discouraging another party from acquiring control of us. These provisions, which are summarized below, may have the effect of discouraging coercive takeover practices and inadequate takeover bids. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquiror outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

Amended and Restated Certificate of Incorporation

Undesignated Preferred Stock. As discussed above, our board of directors has the ability to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control of us or our management.

Limitations on the Ability of Stockholders to Act by Written Consent or Call a Special Meeting. We have provided in our amended and restated certificate of incorporation that our stockholders may not act by written consent. This limit on the ability of our stockholders to act by written consent may lengthen the amount of time required to take stockholder actions. As a result, a holder controlling a majority of our capital stock would not be able to amend our amended and restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws.

In addition, our amended and restated certificate of incorporation and amended and restated bylaws provide that special meetings of the stockholders may be called only by the chairperson of our board of directors, the chief executive officer or a majority of the board of directors. A stockholder may not call a special meeting, which may delay the ability of our stockholders to force consideration of a proposal or for holders controlling a majority of our capital stock to take any action, including the removal of directors.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors. However, our amended and restated bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

Classified Board. Our amended and restated certificate of incorporation and amended and restated bylaws provide that our board of directors is divided into three classes with staggered three-year terms. As a result, one class (i.e., approximately one-third of our board of directors) will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective three-year terms. This provision may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time-consuming for stockholders to replace a majority of the directors on a classified board.

Board Vacancies Filled Only by Majority of Directors. Vacancies and newly created seats on our board may be filled only by a majority of the number of then-authorized members of our board of directors. Only our board of directors may determine the number of directors on our board. The inability of stockholders to determine the number of directors or to fill vacancies or newly created seats on our board of directors makes it more difficult to change the composition of our board of directors, but these provisions promote a continuity of existing management.

No Cumulative Voting. The Delaware General Corporation Law provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless our amended and restated certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation provides that there shall be no cumulative voting and our amended and restated bylaws do not expressly provide for cumulative voting.

Directors Removed Only for Cause. Our amended and restated certificate of incorporation provides for the removal of a director only with cause and by the affirmative vote of the holders of at least 66²/₃% of the shares then entitled to vote at an election of our directors.

Amendment of Charter Provisions. The amendment of the provisions in our amended and restated certificate of incorporation requires approval by holders of at least 66²/₃% of our outstanding capital stock entitled to vote generally in the election of directors (in addition to any rights of the holders of our outstanding capital stock to vote on such amendment under the Delaware General Corporation Law). The amendment of the provisions in our amended and restated bylaws requires approval by either a majority of our board of directors or holders of at least 66²/₃% of our outstanding capital stock entitled to vote generally in the election of directors (in addition to any rights of the holders of our outstanding capital stock to vote on such amendment under the Delaware General Corporation Law).

Delaware Anti-Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions of publicly held companies. This law provides that a specified person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the outstanding voting stock of a publicly held Delaware corporation, or an interested stockholder, may not engage in business combinations with the corporation for a period of three years after the date on which the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in advance in a

manner prescribed by Delaware law. The law does not include interested stockholders prior to the time our common stock is listed on the NASDAQ Global Select Market. The law defines the term "business combination" to include mergers, asset sales and other transactions in which the interested stockholder receives or could receive a financial benefit on other than a pro rata basis with other stockholders. This provision has an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging takeover attempts that might result in a premium over the market price for the shares of our common stock. With approval of our stockholders, we could amend our amended and restated certificate of incorporation in the future to avoid the restrictions imposed by this anti-takeover law.

The provisions of Delaware law and our amended and restated certificate of incorporation could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

Transfer Agent and Registrar

Our transfer agent and registrar for our common stock is Wells Fargo Shareowner Services. The transfer agent's address is Shareowner Services, PO Box 64874, St. Paul, Minnesota 55164, and its telephone number is (800) 401-1957.

Listing

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

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock. Future sales of substantial amounts of our common stock in the public market could reduce prevailing market prices. Furthermore, since a substantial number of shares will be subject to contractual and legal restrictions on resale as described below, sales of substantial amounts of our common stock in the public market after these restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding an aggregate of _____ shares of common stock, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options. Of these shares, all of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless these shares are purchased by affiliates. The remaining _____ shares of common stock held by existing stockholders are restricted securities. Restricted securities may be sold in the public market only if registered or if the transaction qualifies for an exemption from registration described below under Rules 144 or 701 promulgated under the Securities Act.

As a result of the contractual restrictions described below and the provisions of Rules 144 and 701, the restricted shares will be available for sale in the public market as follows:

- _____ shares will be eligible for sale upon completion of this offering;
- _____ shares will be eligible for sale upon the expiration of the lock-up agreements, described below, beginning 180 days after the date of this prospectus; and
- _____ shares will be eligible for sale upon the exercise of vested options 180 days after the date of this prospectus.

Lock-Up Agreements and Obligations

Each of our officers, directors and stockholders, together with certain of our optionholders, who together hold substantially all of our outstanding common stock (on a fully-diluted basis after giving effect to the sale by them of shares in this offering), have agreed not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right, or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into shares or exercisable or exchangeable for shares of our common stock, or enter into any swap or other arrangement for transfer to another, in whole or in part, any of the economic consequences of ownership of our common stock, for a period of at least 180 days after the date of this prospectus, subject to certain exceptions. Transfers or dispositions can be made sooner only under the conditions described above or with the prior written consent of Deutsche Bank Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Deutsche Bank Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated together may release any of the shares subject to these lock-up agreements at any time without notice.

In addition, each grant agreement under our 2008 Equity Incentive Plan issued by us contains restrictions similar to those set forth in the lock-up agreements described above limiting the disposition of securities issuable pursuant to those plans for such period as the underwriters in the offering determine.

10b5-1 Plans

Prior to the completion of the offering, certain of our employees, including our executive officers, and/or directors may enter into written trading plans that are intended to comply with

Rule 10b5-1 under the Securities Exchange Act of 1934. Sales under these trading plans would not be permitted until the expiration of the lock-up agreements relating to the offering described above.

Rule 144

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for 90 days, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months (including any period of consecutive ownership of preceding non-affiliated holders) would be entitled to sell those shares, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year would be entitled to sell those shares without regard to the provisions of Rule 144.

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for 90 days, our affiliates or persons selling shares on behalf of our affiliates who own shares that were acquired from us or an affiliate of ours at least six months prior to the proposed sale are entitled to sell upon expiration of the lock-up agreements described above, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering; and
- The average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 of the Securities Act, as currently in effect, permits any of our employees, officers, directors or consultants who purchased or receive shares from us pursuant to a written compensatory plan or contract to resell such shares in reliance upon Rule 144, but without compliance with certain restrictions. Subject to any applicable lock-up agreements, Rule 701 provides that affiliates may sell their Rule 701 shares under Rule 144 beginning 90 days after the date of this prospectus without complying with the holding period requirement of Rule 144 and that non-affiliates may sell such shares in reliance on Rule 144 beginning 90 days after the date of this prospectus without complying with the holding period, public information, volume limitation or notice requirements of Rule 144.

Registration Rights

Upon completion of this offering, the holders of an aggregate of 65,882,448 shares of our common stock, or their transferees, will be entitled to rights with respect to the registration of their shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of such registration.

Form S-8 Registration Statements

Following the completion of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register the shares of our common stock that are issued or issuable pursuant to our stock plans. See the section titled "Executive Compensation—Benefit Plans." Subject to the lock-up agreements described above, other contractual lock-up obligations set forth in the grant agreements under each such plan and any applicable vesting restrictions, shares registered under these registration statements will be available for resale in the public market immediately upon the effectiveness of these registration statements, except with respect to Rule 144 volume limitations that apply to our affiliates.

MATERIAL U.S. FEDERAL TAX CONSEQUENCES TO NON-U.S. HOLDERS OF COMMON STOCK

This section summarizes the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a non-U.S. holder. For purposes of this summary, a "non-U.S. holder" is any beneficial owner that for U.S. federal income tax purposes is not a U.S. person. The term "U.S. person" means:

- An individual citizen or resident of the United States;
- A corporation or entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any state, including the District of Columbia;
- An estate whose income is subject to U.S. income tax regardless of source; or
- A trust (i) whose administration is subject to the primary supervision of a court within the United States and which has one or more U.S. persons who have authority to control all substantive decisions of the trust or (ii) which has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Generally, an individual may be treated as a resident of the United States in any calendar year for U.S. federal income tax purposes by, among other ways, being present in the United States for at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of this calculation, such individual would count all of the days in which the individual was present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income tax purposes as if they were citizens of the United States.

This summary does not consider the tax consequences for partnerships, entities classified as a partnership for U.S. federal income tax purposes, or persons who hold their interests through a partnership or other entity classified as a partnership for U.S. federal income tax purposes. If a partnership, including any entity treated as a partnership for U.S. federal income tax purposes, is a beneficial owner of common stock, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships that are beneficial owners of our common stock, and partners in such partnerships, should consult their tax advisors regarding the tax consequences to them of the ownership and disposition of our common stock.

This summary applies only to non-U.S. holders who acquire our common stock pursuant to this offering and who hold our common stock as a capital asset (generally property held for investment). This summary generally does not address tax considerations that may be relevant to particular investors because of their specific circumstances, or because they are subject to special rules. Certain former U.S. citizens or long-term residents, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid federal income tax, life insurance companies, tax-exempt organizations, dealers in securities or currencies, brokers, banks or other financial institutions, certain trusts, hybrid entities, pension funds and investors that hold our common stock as part of a hedge, straddle or conversion transaction are among those categories of potential investors that are subject to special rules not covered in this discussion. This summary does not address any U.S. federal gift tax consequences, or state or local or non-U.S. tax consequences. This summary does not provide a complete analysis of all potential tax considerations. The information provided below is based on existing authorities. These authorities may change, or the Internal Revenue Service, or IRS, might interpret the existing authorities differently. In either case, the tax considerations of owning or disposing of common stock could differ from those described below.

INVESTORS CONSIDERING THE PURCHASE OF COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME AND ESTATE TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF OTHER U.S. FEDERAL, FOREIGN, STATE OR LOCAL LAWS AND ANY APPLICABLE TAX TREATIES.

Dividends

Payments of cash and other property that we make to our stockholders with respect to our common stock will constitute dividends to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those dividends exceed our current and accumulated earnings and profits, the dividends will constitute a return of capital and will first reduce a holder's basis, but not below zero, and then will be treated as gain from the sale of stock.

The gross amount of any dividend (out of earnings and profits) paid to a non-U.S. holder of common stock generally will be subject to U.S. withholding tax at a rate of 30% unless the holder is entitled to an exemption from or reduced rate of withholding under an applicable income tax treaty. In order to receive an exemption or a reduced treaty rate, prior to the payment of a dividend, a non-U.S. holder must provide us with an IRS Form W-8BEN (or successor form) certifying qualification for the exemption or reduced rate.

Dividends received by a non-U.S. holder that are effectively connected with a U.S. trade or business conducted by the non-U.S. holder (and dividends attributable to a non-U.S. holder's permanent establishment in the United States if an income tax treaty applies) are exempt from this withholding tax. To obtain this exemption, prior to the payment of a dividend, a non-U.S. holder must provide us with an IRS Form W-8ECI (or successor form) properly certifying this exemption. Effectively connected dividends (or dividends attributable to a permanent establishment), although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, dividends received by a corporate non-U.S. holder that are effectively connected with a U.S. trade or business of the corporate non-U.S. holder (or dividends attributable to a corporate non-U.S. holder's permanent establishment in the United States if an income tax treaty applies) may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified in an income tax treaty).

A non-U.S. holder who provides us with an IRS Form W-8BEN or an IRS Form W-8ECI will be required to periodically update such form. A non-U.S. holder of common stock that is eligible for a reduced rate of withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts currently withheld if an appropriate claim for refund is timely filed with the IRS.

Gain on Disposition of Common Stock

A non-U.S. holder will generally not be subject to U.S. federal income tax on any gains realized on the sale, exchange, or other disposition of common stock unless:

- The gain is effectively connected with a U.S. trade or business of the non-U.S. holder (or attributable to a permanent establishment in the United States if an income tax treaty applies), in which case the non-U.S. holder generally will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates and, if the non-U.S. holder is a corporation, the branch profits tax may apply, at a 30% rate or such lower rate as may be specified by an applicable income tax treaty;
- The non-U.S. holder is an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or

disposition occurs and certain other conditions are met, in which case the non-U.S. holder will be required to pay a flat 30% tax (or such lower rate as may be specified by an applicable income tax treaty between the United States and such non-U.S. holder's country of residence) on the net gain derived from the disposition, which tax may be offset by U.S. source capital losses, if any, provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses; or

- Our common stock constitutes a U.S. real property interest by reason of our status as a "U.S. real property holding corporation" for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or the holder's holding period for our common stock. We believe that we are not currently, and we are not likely to become, a "U.S. real property holding corporation" for U.S. federal income tax purposes.

If we become a U.S. real property holding corporation after this offering, so long as our common stock is regularly traded on an established securities market and continues to be so traded, a non-U.S. holder will not be subject to U.S. federal income tax on gain recognized from the sale, exchange or other disposition of shares of our common stock as a result of such status unless (i) such holder actually or constructively owned more than 5% of our common stock at any time during the shorter of (A) the five-year period preceding the disposition, or (B) the holder's holding period for our common stock, and (ii) we were a U.S. real property holding corporation at any time during such period when the more than 5% ownership test was met. If any gain on your disposition is taxable because we are a U.S. real property holding corporation and your ownership of our common stock exceeds 5%, you will be taxed on such disposition generally in the manner applicable to U.S. persons. Any such non-U.S. holder that owns or has owned, actually or constructively, more than 5% of our common stock is urged to consult that holder's own tax advisor with respect to the particular tax consequences to such holder for the gain from the sale, exchange or other disposition of shares of our common stock if we were to be or to become a U.S. real property holding corporation.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in the non-U.S. holder's country of residence.

Payments of dividends or of proceeds on the disposition of stock made to a non-U.S. holder may be subject to additional information reporting and backup withholding. Backup withholding will not apply if the non-U.S. holder establishes an exemption, for example, by properly certifying its non-U.S. person status on an IRS Form W-8BEN (or successor form). Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person.

Backup withholding is not an additional tax. Rather, the U.S. federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a credit or refund may be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Recent Legislation Relating to Foreign Accounts

Recently enacted legislation generally may impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid to a foreign financial institution (as specifically defined by applicable law) unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to

the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). The legislation also generally may impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid to a non-financial foreign entity unless such entity provides the withholding agent with either a certification that it does not have any substantial direct or indirect U.S. owners or provides information regarding direct and indirect U.S. owners of the entity. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of the legislation on their investment in our common stock.

These withholding requirements are expected to be phased-in for payments of dividends made on or after July 1, 2014 and for payments of gross proceeds from a U.S. sale or other disposition of our common stock on or after January 1, 2017.

U.S. Federal Estate Tax

The estates of nonresident alien individuals are generally subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be U.S. situs property and therefore will be included in the taxable estate of a nonresident alien decedent. The U.S. federal estate tax liability of the estate of a nonresident alien may be affected by a tax treaty between the United States and the decedent's country of residence.

THE PRECEDING DISCUSSION OF MATERIAL U.S. FEDERAL TAX CONSEQUENCES IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representatives Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and William Blair & Company, L.L.C., have severally agreed to purchase from us and the selling stockholders the following respective number of shares of common stock at a public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus:

<u>Underwriters</u>	<u>Number of Shares</u>
Deutsche Bank Securities Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
William Blair & Company, L.L.C.	
JMP Securities LLC	
Raymond James & Associates, Inc.	
Needham & Company, LLC	
Total	

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares of common stock offered hereby are subject to certain conditions precedent and that the underwriters will purchase all of the shares of common stock offered by this prospectus, other than those covered by the option to purchase additional shares described below, if any of these shares are purchased. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or this offering may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of any of these liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commission and Discounts

We have been advised by the representatives of the underwriters that the underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover of this prospectus and to dealers at a price that represents a concession not in excess of \$ per share under the public offering price. The underwriters may allow, and these dealers may re-allow, a concession of not more than \$ per share to other dealers. After the initial public offering, representatives of the underwriters may change the offering price and other selling terms. This offering of the shares of common stock by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The underwriting discounts and commissions per share are equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting discounts and commissions are % of the initial public offering price. We have agreed to pay the underwriters the following discounts and commissions, assuming either

no exercise or full exercise by the underwriters of the underwriters' option to purchase additional shares:

	Per share	Total Fees	
		Without Exercise of Option to Purchase Additional Shares	With Full Exercise of Option to Purchase Additional Shares
Discounts and commissions paid by us	\$	\$	\$

Discounts and commissions paid by the selling stockholders

The expenses of this offering, not including the underwriting discounts and commissions, are estimated at approximately \$ million, including an amount not to exceed \$ in connection with the qualification of the offering with FINRA by counsel to the underwriters.

The representatives of the underwriters have advised us that the underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

Option to Purchase Additional Shares

We and the selling stockholders have granted to the underwriters an option, exercisable not later than 30 days after the date of this prospectus, to purchase up to additional shares of common stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the common stock offered by this prospectus. To the extent that the underwriters exercise this option, each of the underwriters will become obligated, subject to conditions, to purchase approximately the same percentage of these additional shares of common stock as the number of shares of common stock to be purchased by it in the above table bears to the total number of shares of common stock offered by this prospectus. We will be obligated, pursuant to the option, to sell these additional shares of common stock to the underwriters to the extent the option is exercised. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the initial shares referred to in the above table shares are being offered.

No Sales of Similar Securities

Each of our officers and directors, and substantially all of our stockholders and holders of options and warrants to purchase our stock have agreed that for a period of 180 days from the date of this prospectus, we and they will not, without the prior written consent of the representatives of the underwriters, dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock, subject to certain exceptions. Deutsche Bank Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated in their sole discretion may release any of the securities subject to these lock-up agreements at any time, which, in the case of officers and directors, shall be with notice. If the restrictions under the lock-up agreements are waived, shares of our common stock may become available for resale into the market, subject to applicable law, which could reduce the market price for our common stock. There are no other agreements between the representatives and any of our stockholders or affiliates releasing them from these lock-up agreements prior to the expiration of the 180-day period.

Price Stabilization, Short Positions and Penalty Bids

In connection with this offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions.

Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares of common stock from us in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares of common stock pursuant to such option.

Naked short sales are any sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if underwriters are concerned that there may be downward pressure on the price of the shares in the open market prior to the completion of this offering.

Stabilizing transactions consist of various bids for or purchases of our common stock made by the underwriters in the open market prior to the completion of this offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the other underwriters a portion of the underwriting discount received by it because the representatives of the underwriters have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of our common stock. Additionally, these purchases, along with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange, the NASDAQ Global Market, in the over-the-counter market or otherwise.

Listing

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

Pricing of this Offering

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price of our common stock will be determined by negotiation among us, the selling stockholders and Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and William Blair & Company, L.L.C., as representatives of the underwriters. Among the primary factors that will be considered in determining the public offering price are:

- Prevailing market conditions;
- Our results of operations in recent periods;
- The present stage of our development;
- The market capitalizations and stages of development of other companies that we and the representatives of the underwriters believe to be comparable to our business; and

- Estimates of our business potential.

An active trading market for the shares may not develop. It is also possible that after this offering the shares will not trade in the public market at or above the initial public offering price.

Electronic Offer, Sale and Distribution of Shares

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail. In addition, Deutsche Bank Securities Inc. may facilitate Internet distribution for this offering to certain of its Internet subscription customers. Deutsche Bank Securities Inc. may allocate a limited number of shares for sale to its online brokerage customers. A prospectus in electronic format is being made available on Internet websites maintained by one or more of the lead underwriters of this offering and may be made available on websites maintained by other underwriters. Other than the prospectus in electronic format, the information on any underwriter's web site and any information contained in any other web site maintained by an underwriter is not part of the prospectus or the registration statement of which the prospectus forms a part.

Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Notice to Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) an offer to the public of any shares which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State other than the offers contemplated in the prospectus once the prospectus has been approved by the competent authority in such Member State and published and passported in accordance with the Prospectus Directive as implemented in the Relevant Member State except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- To legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- To any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

- By the underwriters to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the underwriters for any such offer; or
- In any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall result in a requirement for the publication by the Issuer or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase any shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Notice to Investors in the United Kingdom

Each underwriter has represented and agreed that (a) it has only communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or the FSMA, received by it in connection with the issue or sale of the shares (i) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or (ii) to high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) and (d) of the Order, with all such persons together being referred to as relevant persons, and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom. This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in Hong Kong

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the

offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- A corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- A trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

- To an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- Where no consideration is or will be given for the transfer; or
- Where the transfer is by operation of law.

Notice to Prospective Investors in Switzerland

The prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations, and the shares will not be listed on the SIX Swiss Exchange. Therefore, the prospectus may not comply with the disclosure standards of the Swiss Code of Obligations and/or the listing rules (including any prospectus schemes) of the SIX Swiss Exchange. Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the shares with a view to distribution.

Notice to Prospective Investors in Qatar

The shares described in this prospectus have not been, and will not be, offered, sold or delivered, at any time, directly or indirectly in the State of Qatar in a manner that would constitute a public offering. This prospectus has not been, and will not be, registered with or approved by the Qatar Financial Markets Authority or Qatar Central Bank and may not be publicly distributed. This prospectus is intended for the original recipient only and must not be provided to any other person. It is not for general circulation in the State of Qatar and may not be reproduced or used for any other purpose.

Notice to Prospective Investors in Saudi Arabia

No offering, whether directly or indirectly, will be made to an investor in the Kingdom of Saudi Arabia unless such offering is in accordance with the applicable laws of the Kingdom of Saudi Arabia and the rules and regulations of the Capital Market Authority, including the Capital Market Law of the Kingdom of Saudi Arabia. The shares will not be marketed or sold in the Kingdom of Saudi Arabia by us or the underwriters.

This prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Office of Securities Regulation issued by the Capital Market Authority. The Saudi Arabian Capital Market Authority does not make any representation as to the accuracy or completeness of this prospectus and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this prospectus. Prospective purchasers of the shares offered hereby should conduct their own due diligence on the accuracy of the information relating to the shares. If you do not understand the contents of this prospectus, you should consult an authorized financial advisor.

Notice to Prospective Investors in the United Arab Emirates

This offering has not been approved or licensed by the Central Bank of the United Arab Emirates (UAE), Securities and Commodities Authority of the UAE and/or any other relevant licensing authority in the UAE including any licensing authority incorporated under the laws and regulations of any of the free zones established and operating in the territory of the UAE, in particular the Dubai Financial Services Authority (DFSA), a regulatory authority of the Dubai International Financial Centre (DIFC). The offering does not constitute a public offer of securities in the UAE, DIFC and/or any other free zone in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended), DFSA Offered Securities Rules and NASDAQ Dubai Listing Rules, accordingly, or otherwise. The shares may not be offered to the public in the UAE and/or any of the free zones.

The shares may be offered and issued only to a limited number of investors in the UAE or any of its free zones who qualify as sophisticated investors under the relevant laws and regulations of the UAE or the free zone concerned.

Notice to Prospective Investors in the Dubai International Financial Centre

This prospectus relates to an exempt offer in accordance with the Offered Securities Rules of the DFSA. This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with exempt offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

Notice to Prospective Investors in Australia

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission (ASIC), in relation to the offering. This prospectus does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001 (the Corporations Act), and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.

Any offer in Australia of the shares may only be made to persons (the Exempt Investors) who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act), "professional investors" (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the shares without disclosure to investors under Chapter 6D of the Corporations Act.

The shares applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring shares must observe such Australian on-sale restrictions.

This prospectus contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person. It does not contain any securities recommendations or financial product advice. Before making an investment decision, investors need to consider whether the information in this prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters.

Notice to Prospective Investors in Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

LEGAL MATTERS

DLA Piper LLP (US) will provide us with an opinion as to the validity of the common stock offered under this prospectus. Goodwin Procter LLP will pass upon certain legal matters related to this offering for the underwriters.

EXPERTS

Our consolidated financial statements as of June 30, 2011, 2012 and 2013, and for each of the years in the three-year period ended June 30, 2013, have been included herein and in the registration statement in reliance upon the report of KPMG LLP, an independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered under this prospectus. As permitted under the rules and regulations of the SEC, this prospectus does not contain all of the information in and exhibits and schedules to the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and its exhibits and schedules. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified by this reference. You may inspect a copy of the registration statement without charge at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from the Public Reference Room of the SEC, 100 F Street, NE, Washington, DC 20549, upon payment of fees prescribed by the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the website is <http://www.sec.gov>. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330.

Upon completion of the offering, we will be subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and we will file reports, proxy statements and other information with the SEC.

We intend to furnish our stockholders with annual reports containing financial statements audited by our independent registered public accounting firm and quarterly reports for the first three fiscal quarters of each fiscal year containing unaudited interim financial information. Our telephone number is (847) 463-3200.

PAYLOCITY HOLDING CORPORATION**Index to Consolidated Financial Statements**

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of June 30, 2011, 2012 and 2013	F-3
Consolidated Statements of Operations for the years ended June 30, 2011, 2012 and 2013	F-4
Consolidated Statements of Changes in Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit) for the years ended June 30, 2011, 2012 and 2013	F-5
Consolidated Statements of Cash Flows for the years ended June 30, 2011, 2012 and 2013	F-6
Notes to Consolidated Financial Statements for the years ended June 30, 2011, 2012 and 2013	F-7
Consolidated Balance Sheets as of June 30, 2013 and December 31, 2013 (unaudited)	F-27
Consolidated Statements of Operations for the six months ended December 31, 2012 and 2013 (unaudited)	F-28
Consolidated Statements of Changes in Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit) for the six-month period ended December 31, 2013 (unaudited)	F-29
Consolidated Statements of Cash Flows for the six months ended December 31, 2012 and 2013 (unaudited)	F-30
Notes to Consolidated Financial Statements for the six months ended December 31, 2012 and 2013 (unaudited)	F-31

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Paylocity Holding Corporation:

We have audited the accompanying consolidated balance sheets of Paylocity Holding Corporation (the "Company") and subsidiary as of June 30, 2011, 2012 and 2013, and the related consolidated statements of operations, changes in redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended June 30, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Paylocity Holding Corporation and subsidiary as of June 30, 2011, 2012 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Chicago, Illinois
December 5, 2013

PAYLOCITY HOLDING CORPORATION

Consolidated Balance Sheets

As of June 30, 2011, 2012 and 2013

(in thousands)

Assets	2011	2012	2013
Current assets:			
Cash and cash equivalents	\$ 7,990	\$ 9,031	\$ 7,594
Accounts receivable, net	852	505	740
Prepaid expenses and other	567	814	1,875
Deferred income tax assets, net	420	481	602
Total current assets before funds held for clients	9,829	10,831	10,811
Funds held for clients	298,979	263,255	355,905
Total current assets	308,808	274,086	366,716
Capitalized software, net	2,725	3,714	2,614
Property and equipment, net	4,959	7,143	8,586
Total assets	\$316,492	\$284,943	\$377,916
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)			
Current liabilities:			
Current portion of long-term debt	\$ 312	\$ 1,625	\$ 625
Accounts payable	703	1,107	880
Taxes payable	—	48	207
Accrued expenses	4,326	5,265	6,794
Total current liabilities before client fund obligations	5,341	8,045	8,506
Client fund obligations	298,979	263,255	355,905
Total current liabilities	304,320	271,300	364,411
Long-term accrued liabilities	134	298	—
Long-term debt, net of current portion	3,188	1,563	938
Deferred rent	1,694	1,885	2,317
Deferred income tax liabilities, net	71	970	269
Total liabilities	\$309,407	\$276,016	\$367,935
Redeemable convertible preferred stock, \$0.001 par value			
Series A, 6% cumulative dividend, \$12,810 liquidation preference, 9,500 shares authorized, issued, and outstanding at June 30, 2011, 2012 and 2013	9,339	9,339	9,339
Series B, 8% cumulative dividend, \$32,210 liquidation preference, 8,500 shares authorized, 8,400 shares issued and outstanding at June 30, 2012 and 2013	—	27,234	27,234
Stockholders' equity (deficit)			
Common stock, \$0.001 par value, 100,000 shares authorized, 56,308 shares issued and outstanding at June 30, 2011; 47,983 shares issued and outstanding at June 30, 2012 and 2013	56	48	48
Additional paid-in capital	4,286	—	437
Accumulated deficit	(6,596)	(27,694)	(27,077)
Total stockholders' equity (deficit)	(2,254)	(27,646)	(26,592)
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	\$316,492	\$284,943	\$377,916

See accompanying notes to consolidated financial statements.

PAYLOCITY HOLDING CORPORATION
Consolidated Statements of Operations
For the years ended June 30, 2011, 2012 and 2013
(in thousands)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues			
Recurring fees	\$ 36,443	\$ 51,211	\$ 71,309
Interest income on funds held for clients	1,100	1,263	1,459
Total recurring revenues	37,543	52,474	72,768
Implementation services and other	1,941	2,622	4,526
Total revenues	39,484	55,096	77,294
Cost of revenues			
Recurring revenues	16,329	22,054	28,863
Implementation services and other	5,416	7,040	10,803
Total cost of revenues	21,745	29,094	39,666
Gross profit	17,739	26,002	37,628
Operating expenses			
Sales and marketing	9,293	12,828	18,693
Research and development	1,565	1,788	6,825
General and administrative	6,868	8,618	12,079
Total operating expenses	17,726	23,234	37,597
Operating income	13	2,768	31
Other income (expense)	(179)	(196)	(16)
Income (loss) before income taxes	(166)	2,572	15
Income tax (benefit) expense	(36)	884	(602)
Net income (loss)	\$ (130)	\$ 1,688	\$ 617
Net income (loss) attributable to common stockholders	\$ (774)	\$ 998	\$ (2,291)
Net income (loss) per share attributable to common stockholders:			
Basic	\$ (0.01)	\$ 0.02	\$ (0.05)
Diluted	\$ (0.01)	\$ 0.02	\$ (0.05)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:			
Basic	56,308	65,808	47,983
Diluted	56,308	66,475	47,983

See accompanying notes to consolidated financial statements.

PAYLOCITY HOLDING CORPORATION
Consolidated Statements of Changes in Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
For the years ended June 30, 2011, 2012 and 2013
(in thousands)

	Redeemable Convertible Preferred Stock				Stockholders' Equity (Deficit)				
	Preferred— Series A		Preferred— Series B		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balances at July 1, 2010	9,500	\$ 9,339	—	\$ —	56,308	\$ 56	\$ 4,109	\$ (6,466)	\$ (2,301)
Stock option expense	—	—	—	—	—	—	177	—	177
Net loss	—	—	—	—	—	—	—	(130)	(130)
Balances at June 30, 2011	9,500	9,339	—	—	56,308	56	4,286	(6,596)	(2,254)
Stock option expense	—	—	—	—	—	—	203	—	203
Stock options exercised	—	—	—	—	101	—	88	—	88
Issuance of Preferred Series B Shares	—	—	8,400	27,234	—	—	—	—	—
Redemption of Common Stock	—	—	—	—	(8,426)	(8)	(4,577)	(22,786)	(27,371)
Net income	—	—	—	—	—	—	—	1,688	1,688
Balances at June 30, 2012	9,500	9,339	8,400	27,234	47,983	48	—	(27,694)	(27,646)
Stock option expense	—	—	—	—	—	—	523	—	523
Stock options exercised	—	—	—	—	50	—	76	—	76
Redemption of Common Stock	—	—	—	—	(50)	—	(162)	—	(162)
Net income	—	—	—	—	—	—	—	617	617
Balances at June 30, 2013	9,500	\$ 9,339	8,400	\$ 27,234	47,983	\$ 48	\$ 437	\$ (27,077)	\$ (26,592)

See accompanying notes to consolidated financial statements.

PAYLOCITY HOLDING CORPORATION

Consolidated Statements of Cash Flows

For the years ended June 30, 2011, 2012 and 2013

(in thousands)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Cash flows provided by operating activities:			
Net income (loss)	\$ (130)	\$ 1,688	\$ 617
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation	177	203	523
Depreciation and amortization	3,779	4,624	5,571
Deferred income tax (benefit) expense	(42)	838	(822)
Provision for doubtful accounts	72	60	60
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(339)	287	(295)
Increase in prepaid expenses	(163)	(247)	(1,061)
Increase in trade accounts payable	252	102	138
Increase in accrued expenses	1,416	1,009	1,497
Net cash provided by operating activities	<u>5,022</u>	<u>8,564</u>	<u>6,228</u>
Cash flows from investing activities:			
Capitalized internally developed software costs	(2,746)	(3,716)	(1,967)
Purchases of property and equipment	(1,987)	(3,446)	(3,987)
Net change in funds held for clients	(176,480)	35,724	(92,650)
Net cash provided by (used in) investing activities	<u>(181,213)</u>	<u>28,562</u>	<u>(98,604)</u>
Cash flows from financing activities:			
Net change in client funds obligation	176,480	(35,724)	92,650
Principal payments on long-term debt	(467)	(312)	(1,625)
Proceeds from issuance of long-term debt	519	—	—
Proceeds from issuance of Redeemable Convertible Preferred Series B Shares	—	27,234	—
Proceeds from exercise of stock options	—	88	76
Payments for redemption of Common Shares	—	(27,371)	(162)
Net cash provided by (used in) financing activities	<u>176,532</u>	<u>(36,085)</u>	<u>90,939</u>
Net Change in Cash and Cash Equivalents	341	1,041	(1,437)
Cash and Cash Equivalents—Beginning of Year	7,649	7,990	9,031
Cash and Cash Equivalents—End of Year	<u>\$ 7,990</u>	<u>\$ 9,031</u>	<u>\$ 7,594</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities			
Build-out allowance received from landlord	<u>\$ 276</u>	<u>\$ 333</u>	<u>\$ 325</u>

See accompanying notes to consolidated financial statements.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements

(all amounts in thousands, except per share data)

(1) Organization and Description of Business

Paylocity Holding Corporation (the "Company") was formed on November 6, 2013 (see Note 17 for further details) and Paylocity Corporation became a wholly-owned subsidiary of the Company resulting in the inclusion of Paylocity Corporation in the consolidated financial statements of Paylocity Holding Corporation. The stockholders of Paylocity Corporation became the stockholders of the Company. The Company is a cloud-based provider of payroll and human capital management software solutions for medium-sized organizations. Services are provided in a Software-as-a-Service ("SaaS") delivery model utilizing the Company's cloud-based platform delivered via the Internet. Payroll services include collection, remittance and reporting of payroll liabilities to the appropriate federal, state and local authorities.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation, Consolidation, and Use of Estimates

The accompanying consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC").

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include (1) allowance for doubtful accounts; (2) software developed for internal use; (3) impairment of property and equipment; (4) stock-based compensation; (5) valuation of net deferred income tax assets and (6) the best estimate of selling price for revenue recognition purposes. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. Accounting estimates used in the preparation of these consolidated financial statements change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes.

The consolidated financial statements reflect the financial position and operating results of Paylocity Holdings Corporation and include its wholly-owned subsidiary Paylocity Corporation. Intercompany accounts and transactions have been eliminated in consolidation.

(b) Concentrations of Risk

The Company regularly maintains cash balances that exceed Federal Depository Insurance Corporation limits. No individual client represents 10% or more of total revenues. For all periods presented, 100% of total revenues were generated by clients in the United States.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(2) Summary of Significant Accounting Policies (Continued)**(d) Accounts Receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the statements of cash flows. The Company maintains an allowance for doubtful accounts reflecting estimated potential losses in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and our clients' financial conditions, the amount of receivables in dispute, the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts quarterly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis. Account balances are charged off against the allowance after all commercially reasonable means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its clients.

Activity in the allowance for doubtful accounts was as follows:

	Year ended June 30,		
	2011	2012	2013
Balance at the beginning of the year	\$ 41	\$ 80	\$ 114
Charged to expense	72	60	60
Write-offs	(33)	(26)	(56)
Balance at the end of the year	<u>\$ 80</u>	<u>\$ 114</u>	<u>\$ 118</u>

(e) Prepaid expenses and other assets

Prepaid expenses and other current assets consist of office space security deposits, deposits with vendors, prepaid licensing fees, supplies, and time clocks available for sale or lease.

(f) Property and Equipment and Long-Lived Assets

Property and equipment are stated at cost. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets, generally three to seven years for most classes of assets, or over the term of the related lease for leasehold improvements.

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares the undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(2) Summary of Significant Accounting Policies (Continued)

(g) Internal-Use Software

The Company applies ASC 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*, to the accounting for costs of internal-use software. Software development costs are capitalized when application development begins, it is probable that the project will be completed, and the software will be used as intended. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. The Company also capitalizes certain costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. The capitalization policy provides for the capitalization of certain payroll costs for employees who are directly associated with developing internal-use software as well as certain external direct costs. Capitalized employee costs are limited to the time directly spent on such projects.

Capitalized internal-use software costs are amortized on a straight-line basis over the estimated useful lives, generally 18 to 24 months, depending on the expected life of the application enhancement. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

(h) Deferred Rent

The Company has operating lease agreements for its office space, which contain provisions for future rent increases, periods of rent abatement and build-out allowances. In accordance with GAAP, the Company records monthly rent expense for each lease equal to the total payments due over the lease term, divided by the number of months of the lease term. Build-out allowances are recorded as part of leasehold improvements and the incentive is amortized over the lease term against depreciation. The difference between recorded rent expense and the amount paid is reflected as "Deferred Rent" in the accompanying balance sheets.

(i) Income Taxes

Income taxes are accounted for 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 rate is recognized in income in the period that includes the enactment date. Accordingly, the impact of the American Taxpayer Relief Act of 2012, which was enacted on January 2, 2013, on deferred tax assets and liabilities and current taxes for the last six months of the fiscal year ended June 30, 2012 was recognized in the year ended June 30, 2013. Research and development tax credits are recognized using the flow-through method in the year the credit arises.

Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized. Significant management judgment is required in determining the period in

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(2) Summary of Significant Accounting Policies (Continued)

which the reversal of a valuation allowance should occur. The Company is required to consider all available evidence, both positive and negative, such as historical levels of income and future forecasts of taxable income among other items, in determining whether a full or partial release of its valuation allowance is required. The Company is also required to schedule future taxable income in accordance with accounting standards that address income taxes to assess the appropriateness of a valuation allowance, which further requires the exercise of significant management judgment.

The Company recognizes 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. The Company records interest and penalties as an element of income tax expense.

(j) Revenue Recognition

The Company recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-25, *Revenue Recognition—Multiple Element Arrangements*, Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements* ("ASU 2009-13"), and Staff Accounting Bulletin 104, *Revenue Recognition*. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection of the revenue is probable.

The Company derives its revenue predominantly from recurring fees and non-recurring service fees. Recurring fees are collected under agreements for payroll, timekeeping, HR-related cloud-based computing services and monthly time clock rentals, all of which are generally cancellable by the client on 60 days' notice or less. Non-recurring service fees consist mainly of implementation and custom reporting services. Such fees are billed to clients and revenue is recorded upon completion of the service. The Company's 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. As such, the agreements are accounted for as service contracts.

Interest income collected on funds held for clients is recognized in recurring revenues when earned as the collection, holding and remittance of these funds are critical components of providing these services.

Most multiple-element arrangements include a short implementation services phase which involves establishing the client within and loading data into the Company's cloud-based applications. Such activities are performed by either the Company or a third party vendor. Major recurring fees included in multiple-element arrangements include:

- Payroll processing and related services, including payroll reporting and tax filing services delivered on a weekly, biweekly, semi-monthly, or monthly basis depending upon the payroll practices of the client and on an annual basis if a client selects W-2 preparation and processing services,
- Timekeeping recording and reporting services, including time clock rentals, delivered on a monthly basis, and

PAYLOCITY HOLDING CORPORATION**Notes to the Consolidated Financial Statements (Continued)****(all amounts in thousands, except per share data)****(2) Summary of Significant Accounting Policies (Continued)**

- Cloud-based HR software solutions, including employee administration and benefits enrollment and administration, delivered on a monthly basis.

For each agreement, the Company evaluates whether the individual deliverables qualify as separate units of accounting. If one or more of the deliverables does not have standalone value upon delivery, which is typical of the payroll and human capital management ("HCM") services our customers contract for, the deliverables that do not have standalone value are generally combined and treated as a single unit of accounting by frequency of occurrence for the product category involved such as biweekly payroll or monthly timekeeping services. Revenues for arrangements treated as a single unit of accounting are 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 implementation services can be accounted for separately from recurring revenues, the Company considers the nature of the implementation services and the availability of the implementation services from other vendors. The Company was able to establish standalone value for implementation activities based on the activity of third-party vendors that perform these services and accounts for such implementation services separate from the recurring revenues.

If the recurring services have standalone value upon delivery, the Company accounts for each separately and revenues are recognized as services are delivered with allocation of consideration based on the relative selling price method as established in ASU 2009-13. 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 ("VSOE"), (ii) third-party evidence of fair value ("TPE") or (iii) management's best estimate of the selling price ("BESP").

The Company is not able to establish VSOE because the deliverables are sold across an insufficiently narrow range of prices on a stand-alone basis and is also not able to establish TPE because no third-party offerings are reasonably comparable to the Company's offerings. The Company thus established its BESP by service offering, requiring the use of significant estimates and judgment. The Company considers numerous factors, including the nature of the deliverables themselves; the geography of the sale; and pricing and discounting practices utilized by the Company's 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.

Revenues generated from sales through partners or utilizing partner services is recognized in accordance with the appropriate accounting guidance of Accounting Standards Codification 605-45, *Principal Agent Considerations*. The Company reports revenue generated through partners or utilizing partner services at the gross amount billed to clients when (i) the Company is the primary obligor, (ii) the Company has latitude to establish the price charged and (iii) the Company bears the credit risk in the transaction.

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

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(2) Summary of Significant Accounting Policies (Continued)

(k) Cost of Revenues

Cost of revenues consists primarily of the cost of recurring revenues and implementation services which are expensed when incurred. Cost of revenues—recurring revenues consists primarily of costs to provide recurring services and support to our clients, and includes amortization of capitalized software. Cost of revenues—implementation services and other consists primarily of costs to provide implementation services and costs related to sales of payroll-related forms and time clocks.

(l) Advertising

Advertising costs are expensed as incurred. Advertising costs amounted to \$4, \$32 and \$27 for the years ended June 30, 2011, 2012 and 2013, respectively.

(m) Stock Option Plan

The Company recognizes all employee stock-based compensation as a cost in the financial statements. 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. The Company estimates grant date fair value using the Black-Scholes option-pricing model and periodically updates the assumed forfeiture rates for actual experience over their vesting terms.

Excess tax benefits of awards that are recognized in equity related to stock option exercises are reflected as financing cash inflows. The total income tax benefit recognized in the statements of income for stock-based compensation arrangements was \$0, \$206 and \$63 for the years ended June 30, 2011, 2012 and 2013, respectively.

(n) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(o) Segment Information

The Company's chief operating decision maker reviews the financial results of the Company in total when evaluating financial performance and for purposes of allocating resources. The Company has thus determined that it operates in a single cloud-based software solution reporting segment.

(p) Recently Issued Accounting Standards

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on the Company's consolidated financial statements upon adoption.

PAYLOCITY HOLDING CORPORATION**Notes to the Consolidated Financial Statements (Continued)**

(all amounts in thousands, except per share data)

(3) Funds Held for Clients and Client Fund Obligations

The Company obtains funds from clients in advance of performing payroll and payroll tax filing services on behalf of those clients. Funds held for clients represent assets that are used solely for the purposes of satisfying the obligations to remit funds relating to payroll and payroll tax filing services. Funds held for clients are held in demand deposit and money market accounts at major financial institutions. The Company has classified funds held for clients as a current asset since these funds are held solely for the purposes of satisfying the client fund obligations.

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

(4) Fair Value Measures

The Company applies the fair value measurement and disclosure provisions of ASC 820, *Fair Value Measurements and Disclosures*, and ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1—Quoted prices in active markets for identical assets and liabilities.
- Level 2—Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Substantially all of the Company's assets that are measured at fair value on a recurring basis are measured using Level 1 inputs. The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2011, 2012 and 2013 based upon the short-term nature of the assets and liabilities.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(5) Software Developed for Internal Use

Capitalized software and accumulated amortization were as follows:

	Year ended June 30,		
	2011	2012	2013
Internally developed software	\$ 9,506	\$ 13,222	\$ 15,189
Accumulated amortization	(6,781)	(9,508)	(12,575)
Capitalized software, net	<u>\$ 2,725</u>	<u>\$ 3,714</u>	<u>\$ 2,614</u>

There were no impairments to software developed for internal use in any of the periods covered in these financial statements. Amortization of capitalized internal-use software costs amounted to \$2,223, \$2,727 and \$3,067 for the years ended June 30, 2011, 2012 and 2013, respectively and is included in Cost of Revenues—Recurring Revenues.

(6) Property and Equipment

The major classes of property and equipment are as follows as of June 30:

	Year ended June 30,		
	2011	2012	2013
Office equipment	\$ 1,147	\$ 1,330	\$ 1,350
Computer equipment	3,125	4,148	4,665
Furniture and fixtures	831	990	1,433
Automobiles	36	36	36
Software	1,880	3,464	3,791
Leasehold improvements	3,000	3,406	3,917
Time clocks rented by clients	647	1,140	1,649
	<u>10,666</u>	<u>14,514</u>	<u>16,841</u>
Accumulated depreciation and amortization	(5,707)	(7,371)	(8,255)
Property and equipment, net	<u>\$ 4,959</u>	<u>\$ 7,143</u>	<u>\$ 8,586</u>

Depreciation expense amounted to \$1,556, \$1,897 and \$2,504, for the years ended June 30, 2011, 2012 and 2013, respectively.

(7) Accrued Expenses

The components of accrued expenses are as follows:

	Year ended June 30,		
	2011	2012	2013
Accrued payroll and personnel costs	\$ 3,649	\$ 4,243	\$ 5,549
Reseller fees	155	202	259
Other	522	820	986
Total Accrued Expenses	<u>\$ 4,326</u>	<u>\$ 5,265</u>	<u>\$ 6,794</u>

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(8) Leases

The Company leases office space in Illinois, California and Florida under non-cancelable operating leases expiring on various dates from August 2014 through February 2020. The leases provide for increasing annual base rents and oblige the Company to fund proportionate share of operating expenses.

In February 2013, the Company leased 46,000 square feet of additional office space at its headquarters in Arlington Heights, Illinois commencing in the first fiscal quarter 2014 through February 2020. The lease calls for two phases of construction build out and occupancy timelines with leasehold improvements to be amortized over the life of the lease. Upon the completion of each of the two phases of the project, the Company receives a six month rent holiday for the portion of the rent attributable to said phase.

The Company leases various types of office and production related equipment under non-cancellable operating leases expiring on various dates from June 2014 through April 2018.

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases, including amortization of leasehold improvements, was \$1,320, \$1,519 and \$2,347 for the years ended June 30, 2011, 2012 and 2013, respectively.

Future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2013 are:

Year ending June 30:	
2014	\$ 2,367
2015	3,225
2016	3,337
2017	2,900
2018	2,906
Later years, through 2020	2,970
Total minimum lease payments	<u>\$ 17,705</u>

(9) Line of Credit and Long-Term Debt

The Company maintains a line of credit agreement with a bank. Under this agreement, the Company has access of up to \$2,500 of which \$166 is earmarked for a letter of credit. Interest is payable monthly at the bank's base rate (3.25% at June 30, 2013) plus 1.50%, with a floor of 5.50%. A commitment fee on the average daily undisbursed amount is assessed quarterly at a rate of 0.375% per annum. The line of credit is collateralized by all of the Company's assets and a personal guarantee of a Company stockholder and is cross-collateralized to the Company's note payable—bank (see below). The line of credit expires on December 31, 2013. There were no outstanding borrowings under this line of credit as of June 30, 2011, 2012 and 2013. On November 27, 2013, this line of credit was increased to \$3,500 and the due date was extended to December 31, 2015.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(9) Line of Credit and Long-Term Debt (Continued)

Long-term debt at June 30, 2011, 2012 and 2013 consists of the following:

	Year ended June 30,		
	2011	2012	2013
Note payable—bank	\$ 2,500	\$ 2,188	\$ 1,563
Note payable—related parties	1,000	1,000	—
Total long-term debt	3,500	3,188	1,563
Less current installments	312	1,625	625
Long-term debt, excluding current installments	<u>\$ 3,188</u>	<u>\$ 1,563</u>	<u>\$ 938</u>

The note payable—bank agreement calls for payments of interest payable monthly at 6.50% with monthly principal payments in the amount of \$52 commencing January 31, 2012 through maturity on December 31, 2015. The note is collateralized by substantially all of the Company assets and a personal guarantee of a Company stockholder. The note is cross-collateralized to the line of credit. The note is subject to certain prepayment penalties, as defined in the agreement.

In accordance with the terms of the line of credit and note payable—bank agreements, the Company must comply with certain financial and non-financial covenants. The Company was in compliance with all covenants for each of the years ended June 30, 2011, 2012 and 2013.

The notes payable—related parties bear interest at 8.00%. Principal and interest were paid in full in March of 2013. The notes were unsecured and were subordinated to the line of credit and note payable—bank. Interest expense on these notes was \$80, \$87 and \$69 for the years ended June 30, 2011, 2012 and 2013, respectively. Accrued interest on these notes was \$105 and \$191 as of the years ended June 30, 2011 and 2012.

The aggregate maturities of long-term debt for each of the five years subsequent to June 30, 2013 are: \$625 in 2014, \$625 in 2015 and \$313 in 2016. Interest paid was \$166, \$161 and \$385 for the years ended June 30, 2011, 2012 and 2013, respectively.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(10) Income Taxes**(a) Income Taxes**

Income tax (benefit) expense for the years ended June 30, 2011, 2012 and 2013 consists of the following:

	Year ended June 30,		
	2011	2012	2013
Current taxes			
U.S. federal	\$ —	\$ 12	\$ 126
State and local	6	34	94
Deferred taxes:			
U.S. federal	(36)	738	(516)
State and local	(6)	100	(306)
Total income tax (benefit) expense	<u>\$ (36)</u>	<u>\$ 884</u>	<u>\$ (602)</u>

(b) Tax Rate Reconciliation

Income tax (benefit) expense differed from the amounts computed by applying the U.S. federal income tax rate of 34% to pretax income from continuing operations as a result of the following:

	Year ended June 30,		
	2011	2012	2013
Income tax provision at statutory federal rate	\$ (53)	\$ 875	\$ 6
Increase (reduction) in income taxes resulting from:			
Research and development credit, net of federal income tax benefit	—	(173)	(650)
Non-deductible expenses	17	25	53
State and local income taxes, net of federal income tax benefit	—	157	(11)
	<u>\$ (36)</u>	<u>\$ 884</u>	<u>\$ (602)</u>

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(10) Income Taxes (Continued)

(c) Components of Deferred Tax Assets and Liabilities

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2011, 2012 and 2013 are presented below.

	Year ended June 30,		
	2011	2012	2013
Deferred tax assets:			
Deferred rent	\$ 254	\$ 275	\$ 438
Allowance for doubtful accounts	31	45	46
Accrued expenses	420	508	583
Stock-based compensation	71	138	333
Net operating loss carryforwards	1,383	1,015	359
Research and development credit	47	206	832
AMT Credits	—	12	138
Total deferred tax assets	2,206	2,199	2,729
Deferred tax liabilities:			
Research and development costs	(1,062)	(1,463)	(1,024)
Prepaid expenses	(31)	(72)	(66)
Depreciation	(764)	(1,153)	(1,306)
Total deferred liabilities	(1,857)	(2,688)	(2,396)
Net deferred tax asset (liability)	\$ 349	\$ (489)	\$ 333

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment. Taxable income (loss) for the years ended June 30, 2011, 2012 and 2013 was approximately \$(1,108), \$842 and \$1,941, respectively, prior to utilization or establishment of net operating loss carryforwards. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences at June 30, 2013.

At June 30, 2013, the Company has net operating loss carryforwards for Federal income tax purposes of approximately \$588 which are available to offset future Federal taxable income, if any, through 2031, including excess tax benefits from stock option exercises of approximately \$106 which will be credited to additional paid-in capital when realized. The Company also has gross federal and state research and development tax credit carryforwards of approximately \$832 which expire between 2017 and 2032. In addition, the Company has alternative minimum tax credit carryforwards of approximately \$138, which are available to reduce future Federal regular income taxes, if any, over an indefinite period.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(10) Income Taxes (Continued)

Income taxes paid were approximately \$6, \$7 and \$69 for the periods ended June 30, 2011, 2012 and 2013, respectively. The Company had no unrecognized tax benefits as of June 30, 2011, 2012 and 2013, respectively.

The Company files income tax returns with the United States federal government and various state jurisdictions. Certain tax years remain open for federal and state tax reporting jurisdictions in which the Company does business due to net operating loss carryforwards and tax credits unutilized from such years or utilized in a period remaining open for audit under normal statute of limitations relating to income tax liabilities. The Company's tax years ended June 30, 2008 to June 30, 2013 remain open for federal purposes. The Company's tax returns filed in states in which it is required to do so remain open for a range of tax years including those ended June 30, 2008 to June 30, 2013 depending upon the jurisdiction and the applicable statute of limitations.

(11) Stockholders' Equity (Deficit)

Common Stock

Holders of common stock are entitled to one vote per share and to receive dividends. The holders have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common stock is subordinate to the redeemable convertible preferred stock with respect to dividend rights and rights upon liquidation, winding up and dissolution of the Company.

(12) Redeemable Convertible Preferred Stock

The Company has two series of Redeemable Convertible Preferred Stock, Series A and Series B.

The Series A Redeemable Convertible Preferred Stock, with a par value of \$0.001 per share, has a liquidation preference senior to the common stock. In the event of liquidation as defined in the Company's charter, the Series A Redeemable Convertible Preferred Stock is entitled to a liquidation preference equal to the original issue price of each respective share of Series A Redeemable Convertible Preferred Stock plus unpaid and accrued and declared dividends. The liquidation amount of the Series A Redeemable Convertible Preferred Stock is capped at 2.25 times the original issue price of the Series A Redeemable Convertible Preferred Stock. Series A Redeemable Convertible Preferred Stockholders are entitled to a 6% cumulative preferred dividend computed on the contributed investment of \$9,500 payable when declared by the Company. No dividends may be declared and paid on the Company's common stock until such time as the Company has paid in full any dividends actually accrued on such Redeemable Convertible Preferred Stock. No such dividends have been declared as of June 30, 2011, 2012 and 2013. Cumulative unpaid preferred dividends totaled approximately \$1,900, \$2,600 and \$3,310 and were \$0.20, \$0.27 and \$0.35 per share of Series A Redeemable Convertible Preferred Stock as of June 30, 2011, 2012 and 2013, respectively. Proceeds from the issuance were offset by issuance costs of \$161.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(12) Redeemable Convertible Preferred Stock (Continued)

On June 29, 2012, the Company authorized 8,500 shares of \$0.001 par value Series B Redeemable Convertible Preferred Stock and issued 8,400 shares at approximately \$3.25 a share to investors. Proceeds from the issuance were used to redeem common stock.

The Series B Redeemable Convertible Preferred Stock, with a par value of \$0.001 per share, has a liquidation preference senior to the common stock and is *pari passu* with the Series A Redeemable Convertible Preferred Stock. In the event of liquidation as defined in the Company's charter, the holders of Series B Redeemable Convertible Preferred Stock are entitled to a liquidation preference equal to original issue price of each respective share of Series B Redeemable Convertible Preferred Stock plus unpaid and accrued and declared dividends. If such liquidation occurs on or before the second anniversary of the initial issuance of the Series B Redeemable Convertible Preferred Stock, then the Series B Redeemable Convertible Preferred Stockholder is entitled to an additional amount equal to 10% of the original issue price on each outstanding share of Series B Redeemable Convertible Preferred Stock per annum. Series B Redeemable Convertible Preferred Stockholders are entitled to an 8% cumulative preferred dividend computed on the investment amount of \$27,284 payable when declared by the Company. No dividends may be declared and paid on the Company's common stock until such time as the Company has paid in full any dividends actually accrued on such Preferred Stock. No such dividends have been declared as of June 30, 2012 and 2013. Cumulative unpaid preferred dividends totaled approximately \$6 and \$2,190, and \$0.00 and \$0.26 per share of Series B Redeemable Convertible Preferred Stock as of June 30, 2012 and 2013, respectively. Proceeds from the issuance were offset by issuance costs of \$50.

The Series A and B Redeemable Convertible Preferred Stockholders (together the "Preferred Stockholders") have the right to vote on certain corporate matters on an as converted basis with the common stock as a single class. In addition to the preferential cumulative dividends, holders of Series A & Series B Redeemable Convertible Preferred Stock are entitled to receive, on an if-converted basis, when set aside or paid by the Company, any dividends on the Company's common stock. At any time, the Preferred Stockholders can convert all or any portion of such shares into the aggregate number of shares of common stock at the respective conversion rate, as defined in the agreement, currently one-for-one. Upon the closing of the sale of common stock to the public at a price of at least \$5.6842, which also must result in at least \$50,000 of gross proceeds, the Series A and Series B Redeemable Convertible Preferred Stock would automatically convert into common stock at the respective conversion rate, as defined in the agreement, currently one-for-one.

At any time following the third anniversary of the initial issuance of the Series B Redeemable Convertible Preferred Stock, the majority holders of Series A and Series B Redeemable Convertible Preferred Stock may require the Company to redeem all of the Series A and Series B Redeemable Convertible Preferred Stock upon notice to the Company. Upon such an occurrence, the Company will reclassify as a liability any remaining Series A and Series B Redeemable Convertible Preferred Stock and adjust their carrying amount to fair market value in accordance with FASB ASC 480-10-55-11 *Distinguishing Liabilities from Equity*. However, this redemption feature terminates upon the conversion of the Series A and Series B Redeemable Convertible Preferred Stock into Common Stock, the successful completion of a qualified IPO or the closing of a deemed liquidation

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(12) Redeemable Convertible Preferred Stock (Continued)

event as described in the Company's Certificate of Incorporation. As a result of these features of the Series A and Series B Redeemable Convertible Preferred Stock, the Company concluded that the likelihood of the Series A and Series B Redeemable Convertible Preferred Stock becoming redeemable was not probable. As such, no adjustment to the carrying value of the Redeemable Convertible Preferred Shares was required.

(13) Benefit Plans**(a) Equity Incentive Plan**

The Company has established the 2008 Equity Incentive Plan (the "Plan"). The Plan authorizes the granting of options to purchase common stock and other equity incentives at the discretion of the Company's Board of Directors to certain employees. Under the Plan, the exercise price of each option approximates the fair value of a share of common stock on the grant date. As a privately owned company, the fair value of a share of common stock is determined contemporaneously with the award by the Company's board of directors, including by reference to valuation assessments by third-party valuation consultants utilizing the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. Options are granted at various dates, have a maximum term of 10 years and typically vest over four years.

The Company recorded \$177, \$203 and \$523 of compensation expense for the years ended June 30, 2011, 2012 and 2013, respectively. Stock based compensation expense is recorded in General and Administrative expense to coincide with the salaries and benefits of the individuals participating in the plan.

The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions for 2011, 2012 and 2013 grants are provided in the following table. The Company uses company-specific historical data to estimate the expected term of the option, such as employee option exercise and employee post-vesting departure behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since the Company's shares are not publicly traded and its shares are rarely traded privately, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant.

	Year ended June 30,		
	2011	2012	2013
Valuation assumptions:			
Expected dividend yield	0%	N/A—no grants	0%
Expected volatility	31.0%	N/A—no grants	30.7%
Expected term (years)	5.0	N/A—no grants	4.0
Risk-free interest rate	1.97%	N/A—no grants	0.61%

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(13) Benefit Plans (Continued)

Stock option activity during the periods indicated is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic value
Balance at July 1, 2010	1,013	\$ 0.87	9.98	\$ —
Granted	687	1.52		
Balance at June 30, 2011	1,700	1.13	9.36	659
Granted	—	—		
Exercised	(101)	0.87		
Forfeited	(150)	1.52		
Balance at June 30, 2012	1,449	1.11	8.33	3,096
Granted	1,390	3.25		
Exercised	(50)	1.52		
Balance at June 30, 2013	2,789	\$ 2.17	8.22	\$ 7,028
Options exercisable at June 30, 2013	902	\$ 1.05	7.23	\$ 3,287
Options vested and expected to vest at June 30, 2013	2,340	\$ 2.14	8.19	\$ 5,976

The weighted average grant date fair value of options granted during the years ended June 30, 2011, 2012 and 2013 was \$0.47, \$0 and \$0.81, respectively. There were no options granted in fiscal 2012. The total intrinsic value of options exercised during the years ended June 30, 2011, 2012 and 2013 was \$0, \$241 and \$87, respectively.

At June 30, 2013, there was \$537 of total unrecognized compensation cost related to unvested stock options granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.54 years. The Company may also grant Restricted Stock Awards ("RSAs") under the Plan with terms determined at the discretion of the Company's Board of Directors. As of June 30, 2011, 2012 and 2013 the Company had 404 RSAs outstanding to certain employees. The RSAs vest and become exercisable upon occurrence of a change in control or initial public offering, as defined in the Plan. The holders of RSAs have similar rights to common Stockholders. No compensation expense is reflected in the accompanying financial statements for RSAs as such expense will be recorded at the fair value of the stock upon vesting.

The Company currently uses authorized and unissued shares to satisfy option exercises and share award vesting. As of June 30, 2013, the Company authorized 4,512 shares of common stock reserved for issuance under the plan, of which 1,219 are available for future grants.

(b) 401(k) Plan

The Company maintains a 401(k) plan with a safe harbor matching provision that covers all eligible employees. The Company matches 50% of the employees' contributions up to 6% of their gross pay. Contributions were approximately \$332, \$514 and \$720 for the years ended June 30, 2011, 2012 and 2013, respectively.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(14) Commitments and Contingencies

(a) *Employment Agreements*

The Company has employment agreements with certain of its key officers. The agreements allow for minimum annual compensation increases, participation in the Plan and bonuses for annual performance as well as certain change of control events as defined in the agreements.

(b) *Litigation*

From time to time, the Company is subject to litigation arising in the ordinary course of business. Many of these proceedings are covered in whole or in part by insurance. In the opinion of the Company's management, the ultimate disposition of any matters currently outstanding or threatened will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

(c) *Reseller Agreements*

The Company has agreements with two resellers. The initial term of the first reseller agreement commenced in February 2007 and expires in February 2016 unless renewed. The initial term of the second reseller agreement commenced in June 2009 and expires in June 2016 unless renewed. Each of the Company's reseller agreements provides that the Company is required upon a termination of the agreement to acquire the assets of the reseller.

The first reseller agreement provides that either party may terminate the agreement by electing not to renew the agreement beyond its original term. The Company, but not the reseller, also has the right to terminate the agreement at any time following the completion of an initial public offering by the Company. If a termination were to occur as a result of the Company's election following the completion of this offering, the purchase price of the assets would be equal to three times the net revenues of the reseller for the three months preceding the termination effective date times four plus the annual W-2 revenue of the reseller for the 12 months preceding the termination effective date. The Company paid the first reseller \$1.0 million, \$1.7 million and \$2.4 million during fiscal years 2011, 2012 and 2013, respectively.

The second reseller agreement provided that the reseller may terminate the agreement by providing nine months' prior notice or upon an initial public offering by the Company. The Company amended this agreement in December of 2013 to provide that the reseller may not give a nine-month termination notice until after the earlier of (i) six months following the closing of an initial public offering by the Company or (ii) December 31, 2014. In addition, the Company, but not the reseller, now has the right to terminate the agreement at any time after the date that is six months following the completion of an initial public offering by the Company. If a termination were to occur, the purchase price of the assets would be equal to 3.3 times the net revenues of the reseller for the 12 months preceding the termination effective date. The Company paid the second reseller \$0.9 million, \$1.3 million and \$1.8 million during fiscal years 2011, 2012 and 2013, respectively.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(15) Earnings Per Share

Basic and diluted net income (loss) per common share is presented in conformity with the two-class method required for participating securities. Immediately prior to the completion of the Company's Initial Public Offering, all shares of outstanding Series A and Series B Redeemable Convertible Preferred Stock are expected to automatically convert into shares of the Company's common stock. Holders of Series A and Series B Redeemable Convertible Preferred Stock are entitled to liquidation preferences as outlined in Note 12 payable prior and in preference to any dividends on any shares of the Company's common stock.

In the event a dividend is paid on common stock, the holders of Redeemable Convertible Preferred Stock are entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as-if converted basis). The holders of the Company's Redeemable Convertible Preferred Stock do not have a contractual obligation to share in the losses of the Company. The Company considers its Redeemable Convertible Preferred Stock to be participating securities and, in accordance with the two-class method, earnings allocated to Redeemable Convertible Preferred Stock and the related number of outstanding shares of Redeemable Convertible Preferred Stock have been excluded from the computation of basic and diluted net income (loss) per common share.

Under the two-class method, net income (loss) attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period Redeemable Convertible Preferred Stock cumulative dividends, between common stock and Redeemable Convertible Preferred Stock. In computing diluted net income (loss) attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities.

Basic net loss per common share is computed using the weighted-average number of common shares outstanding during the period. Since the Series A and Series B Redeemable Convertible Preferred Stock are entitled to participate should any common stock dividends be declared but are not obligated to participate in any losses generated by the Company, basic net income per common share is computed using the weighted-average number of common shares outstanding during the period plus the Series A and Series B Redeemable Convertible Preferred Stock on a weighted-average basis.

Diluted net loss per share is computed using the weighted-average number of common shares outstanding during the period and, if dilutive, potential common shares outstanding during the period. Since the Series A and Series B Redeemable Convertible Preferred Stock are entitled to participate should any common stock dividends be declared but are not obligated to participate in any losses generated by the Company, diluted net income per share is computed using the weighted-average number of common shares plus the Series A and Series B Redeemable Convertible Preferred Stock on a weighted-average basis and, if dilutive, potential common shares outstanding during the period. The Company's potential common shares consist of the incremental common shares issuable upon the exercise of stock options. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method.

Restricted Stock Awards are excluded from both basic and diluted earnings per share calculations as the vesting conditions have not been met as of June 30, 2013.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(15) Earnings Per Share (Continued)

The following table presents the calculation of basic and diluted net income (loss) per share:

	Year ended June 30,		
	2011	2012	2013
Basic net income (loss) per share:			
Numerator:			
Net Income (Loss)	\$ (130)	\$ 1,688	\$ 617
Less: Preferred dividend rights attributable to participating securities	(644)	(690)	(2,908)
Net income (loss) attributable to common stockholders	<u>\$ (774)</u>	<u>\$ 998</u>	<u>\$ (2,291)</u>
Denominator:			
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:			
Basic (in thousands)	56,308	65,808	47,983
Weighted-average effect of potentially dilutive shares:			
Employee stock options (in thousands)	—	667	—
Diluted (in thousands)	<u>56,308</u>	<u>66,475</u>	<u>47,983</u>
Net income (loss) per share attributable to common stockholders:			
Basic	\$ (0.01)	\$ 0.02	\$ (0.05)
Diluted	\$ (0.01)	\$ 0.02	\$ (0.05)

Potentially dilutive employee stock options were omitted from the 2011 and 2013 calculations because the effect of their inclusion was antidilutive. Series A and Series B Redeemable Convertible Preferred Stock were omitted from the 2011 and 2013 basic and diluted net loss per share calculations because Stockholders of those issuances are not obligated to participate in the losses generated by the Company as enumerated in the Company's Articles of Incorporation.

(16) Related Party Transactions

The Company purchased sales leads from an entity owned by one of the stockholders in the amount of approximately \$172, \$404 and \$893 for the years ended June 30, 2011, 2012 and 2013, respectively. The Company provides no management guidance to the entity and has no equity interest in the entity, no obligation or intention to fund any of the entity's operational shortfalls, and no right to any operational surpluses generated by the entity. Accounts payable to this entity were approximately \$0, \$0 and \$65 as of June 30, 2011, 2012 and 2013, respectively. On October 14, 2013, the Company hired substantially all of the employees of the sales lead generation entity described above. See Note 9 for additional related party transaction information.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(17) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through December 5, 2013, the date at which the financial statements were available to be issued.

On November 6, 2013, Paylocity Holding Corporation was established. All holders of Paylocity Corporation equity instruments were issued Paylocity Holding Corporation equity instruments with identical rights and obligations in exchange for their Paylocity Corporation equity instruments. Upon the completion of these transactions, Paylocity Holding Corporation was the sole stockholder of Paylocity Corporation. There was no impact on the Company's consolidated balance sheet, consolidated results of operations, or consolidated earnings per share presented in the consolidated financial statements and notes thereto for the periods ended June 30, 2011, 2012 and 2013 and there is not expected to be one in the future.

See Notes 9, 14 and 16 for additional subsequent event disclosures.

PAYLOCITY HOLDING CORPORATION

Consolidated Balance Sheets

As of June 30 and December 31, 2013

(in thousands)
(unaudited)

	June 30, 2013	December 31, 2013	Pro forma as of December 31, 2013
Assets			
Current assets:			
Cash and cash equivalents	\$ 7,594	\$ 2,829	\$ 2,829
Accounts receivable, net	740	684	684
Prepaid expenses and other	1,875	2,176	2,176
Deferred income tax assets, net	602	564	564
Total current assets before funds held for clients	10,811	6,253	6,253
Funds held for clients	355,905	491,763	491,763
Total current assets	366,716	498,016	498,016
Long-term prepaid expenses	—	414	414
Deferred income tax assets, net	—	1,008	1,008
Deferred offering costs	—	1,561	1,561
Capitalized software, net	2,614	3,244	3,244
Property and equipment, net	8,586	10,990	10,990
Total assets	<u>\$ 377,916</u>	<u>\$ 515,233</u>	<u>\$ 515,233</u>
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)			
Current liabilities:			
Current portion of long-term debt	\$ 625	\$ 625	\$ 625
Accounts payable	880	3,253	3,253
Taxes payable	207	12	12
Accrued expenses	6,794	7,388	7,388
Total current liabilities before client fund obligations	8,506	11,278	11,278
Client fund obligations	355,905	491,763	491,763
Total current liabilities	364,411	503,041	503,041
Long-term debt, net of current portion	938	625	625
Deferred income tax liabilities, net	269	—	—
Deferred rent	2,317	2,793	2,793
Total liabilities	<u>\$ 367,935</u>	<u>\$ 506,459</u>	<u>\$ 506,459</u>
Redeemable convertible preferred stock, \$0.001 par value			
Series A, 6% cumulative dividend, 9,500 shares authorized, issued and outstanding as of June 30 and December 31, 2013, no shares issued and outstanding pro forma, \$12,810 and \$13,194 liquidation preference at June 30 and December 31, 2013	9,339	9,339	—
Series B, 8% cumulative dividend, 8,500 shares authorized, 8,400 shares issued and outstanding at June 30 and December 31, 2013, no shares issued and outstanding pro forma, \$32,210 and \$34,762 liquidation preference at June 30 and December 31, 2013	27,234	27,234	—
Stockholders' equity (deficit)			
Common stock, \$0.001 par value, 100,000 authorized 47,983 shares issued and outstanding as of June 30 and December 31, 2013, and 66,287 pro forma	48	48	66
Additional paid-in capital	437	786	37,692
Accumulated deficit	(27,077)	(28,633)	(28,984)
Total stockholders' equity (deficit)	(26,592)	(27,799)	8,774
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	<u>\$ 377,916</u>	<u>\$ 515,233</u>	<u>\$ 515,233</u>

See accompanying notes to unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION

Consolidated Statements of Operations

For the six months ended December 31, 2012 and 2013

(in thousands, except per share data)

(unaudited)

	Six months ended December 31,	
	2012	2013
Revenues		
Recurring fees	\$ 30,639	\$ 42,883
Interest income on funds held for clients	625	731
Total recurring revenues	31,264	43,614
Implementation services and other	1,762	2,660
Total revenues	33,026	46,274
Cost of revenues		
Recurring revenues	13,294	17,074
Implementation services and other	4,762	7,991
Total cost of revenues	18,056	25,065
Gross profit	14,970	21,209
Operating expenses		
Sales and marketing	7,826	10,612
Research and development	3,054	4,303
General and administrative	5,794	9,139
Total operating expenses	16,674	24,054
Operating loss	(1,704)	(2,845)
Other income (expense)	(9)	50
Loss before income taxes	(1,713)	(2,795)
Income tax benefit	(681)	(1,239)
Net loss	\$ (1,032)	\$ (1,556)
Net loss attributable to common stockholders	\$ (2,486)	\$ (3,118)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.05)	\$ (0.06)
Pro-forma net loss per share attributable to common stockholders, basic and diluted		\$ (0.02)
Weighted average number of shares of common stock used in computing net loss per share attributable to common stockholders, basic and diluted	47,983	47,983
Pro-forma weighted average number of shares of common stock, basic and diluted		66,287

See accompanying notes to unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION

Consolidated Statements of Changes in Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)

For the six-month period ended December 31, 2013

(in thousands)

(unaudited)

	<u>Redeemable Convertible Preferred Stock</u>				<u>Stockholders' Equity (Deficit)</u>				
	<u>Preferred—Series A</u>		<u>Preferred—Series B</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balances at June 30, 2013	9,500	\$ 9,339	8,400	\$ 27,234	47,983	\$ 48	\$ 437	\$ (27,077)	\$ (26,592)
Stock option expense	—	—	—	—	—	—	349	—	349
Net loss	—	—	—	—	—	—	—	(1,556)	(1,556)
Balances at December 31, 2013	<u>9,500</u>	<u>\$ 9,339</u>	<u>8,400</u>	<u>\$ 27,234</u>	<u>47,983</u>	<u>\$ 48</u>	<u>\$ 786</u>	<u>\$ (28,633)</u>	<u>\$ (27,799)</u>

See accompanying notes to the unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION

Consolidated Statements of Cash Flows

For the six months ended December 31, 2012 and 2013

(in thousands)

(unaudited)

	Six months ended December 31,	
	2012	2013
Cash flows provided by (used in) operating activities:		
Net loss	\$ (1,032)	\$ (1,556)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock-based compensation	261	349
Depreciation and amortization	2,733	2,924
Deferred income tax benefit	(776)	(1,239)
Provision for doubtful accounts	30	6
Changes in operating assets and liabilities:		
Increase in accounts receivable	3	50
Increase in prepaid expenses	(1,249)	(715)
Increase in trade accounts payable	(157)	778
Decrease in accrued expenses	73	295
Net cash (used in) provided by operating activities	(114)	892
Cash flows from investing activities:		
Capitalized internally developed software costs	(594)	(1,859)
Purchases of property and equipment	(2,034)	(2,787)
Net change in funds held for clients	(79,808)	(135,858)
Net cash used in investing activities	(82,436)	(140,504)
Cash flows from financing activities:		
Net change in client funds obligation	79,808	135,858
Principal payments on long-term debt	(313)	(313)
Proceeds from exercise of stock options	76	—
Payments for redemption of Common Shares	(162)	—
Payments on deferred offering costs	—	(698)
Net cash provided by financing activities	79,409	134,847
Net Change in Cash and Cash Equivalents	(3,141)	(4,765)
Cash and Cash Equivalents—Beginning of Period	9,031	7,594
Cash and Cash Equivalents—End of Period	\$ 5,890	\$ 2,829
Supplemental disclosure of non-cash investing and financing activities		
Build-out allowance received from landlord	\$ 325	\$ 580
Deferred offering costs included in accounts payable	\$ —	\$ 863
Supplemental disclosure of cash flow information		
Cash paid for income taxes	\$ 12	\$ 195
Cash paid for interest	\$ 68	\$ 48

See accompanying notes to unaudited consolidated financial statements.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements

(all amounts in thousands, except per share data)

(unaudited)

(1) Organization and Description of Business

Paylocity Holding Corporation (the "Company") is a cloud-based provider of payroll and human capital management software solutions for medium-sized organizations. Services are provided in a Software-as-a-Service ("SaaS") delivery model utilizing the Company's cloud-based platform delivered via the Internet. Payroll services include collection, remittance and reporting of payroll liabilities to the appropriate federal, state and local authorities.

The Company was formed on November 6, 2013, and Paylocity Corporation became a wholly-owned subsidiary of the Company, resulting in the inclusion of Paylocity Corporation in the consolidated financial statements of Paylocity Holding Corporation. All holders of Paylocity Corporation equity instruments were issued Paylocity Holding Corporation equity instruments with identical rights and obligations in exchange for their Paylocity Corporation equity instruments. Upon the completion of these transactions, Paylocity Holding Corporation was the sole stockholder of Paylocity Corporation.

(2) Summary of Significant Accounting Policies

(a) *Unaudited Pro Forma Stockholders' Equity (Deficit) and Net Loss per Share*

The Company has submitted a Registration Statement on Form S-1 with the United States Securities and Exchange Commission (the "SEC") for the proposed initial public offering ("IPO") of shares of its common stock. If the Company's IPO is consummated, all of the 17,900 shares of redeemable convertible preferred stock outstanding will convert into common stock and 404 shares of restricted common stock will fully vest. The unaudited pro forma stockholders' deficit data as of December 31, 2013 has been prepared assuming the automatic conversion of all outstanding shares of redeemable convertible preferred stock and vesting of the restricted common stock into 18,304 shares of common stock.

The unaudited pro forma net loss per common share, basic and diluted, for the six months ended December 31, 2013 have been computed to give effect to the conversion of the redeemable convertible preferred stock and vesting of the restricted common stock into an aggregate of 18,304 shares of common stock as if such shares converted or vested, as applicable, as of July 1, 2013.

The Company believes that the unaudited pro forma net loss per common share provides material information to investors because the conversion of the redeemable convertible preferred stock and the vesting of outstanding restricted common stock into common stock is expected to occur upon the closing of the Company's IPO and, therefore, the disclosure of pro forma net loss per common share provides a measure of net loss per common share that is more comparable to what will be reported as a public company.

The unaudited pro forma stockholders' equity data also gives effect to \$351 of stock-based compensation expense associated with the RSAs, which the Company expects to record upon completion of the Company's initial public offering. This pro forma adjustment related to stock-based compensation expense has been reflected as an increase to additional paid-in capital and accumulated deficit and has not been reflected in the results of operations for the six months

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(2) Summary of Significant Accounting Policies (Continued)

ended December 31, 2013. Payroll tax expenses and other withholding obligations have not been included in the pro forma adjustments.

(b) Summary of Significant Accounting Policies

The Company's significant accounting policies discussed in Note 2 to its audited financial statements for the fiscal year ended June 30, 2013 have not significantly changed.

(c) Interim Unaudited Consolidated Financial Information

The accompanying unaudited consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or "ASC") for interim financial information, and with Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, changes in stockholders' deficit and cash flows. The results of operations for the six months ended December 31, 2013 are not necessarily indicative of the results for the full year or the results for any future periods. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes for the year ended June 30, 2013 appearing elsewhere in this prospectus.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include (1) allowance for doubtful accounts; (2) software developed for internal use; (3) impairment of property and equipment; (4) stock-based compensation; (5) evaluation of net deferred income tax assets and (6) the best estimate of selling price for revenue recognition purposes. Future events and their effects cannot be predicted with certainty, accordingly, accounting estimates require the exercise of judgment. Accounting estimates used in the preparation of these consolidated financial statements change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes.

(e) Income Taxes

Differences in the normal relationship between the income tax (benefit) provision and pre-tax income (loss) result from federal and state research and development credits and expenses not

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(2) Summary of Significant Accounting Policies (Continued)

deductible for income tax reporting purposes. No federal research and development credits were recorded in the six month period ending December 31, 2012 due to the fact that no enabling statute was enacted until January 2013. As such, the research and development credit resulting from research and development activities conducted during the six month period ending December 31, 2012, was recognized in the three month period ending March 31, 2013, the interim period that includes the enactment date.

(f) Deferred Offering Costs

Deferred offering costs, consisting of legal, accounting, and other fees and costs relating to the initial public offering are capitalized. The deferred offering costs will be offset against the proceeds received from the initial public offering. In the event the offering is no longer deemed probable, all of the deferred offering costs will be expensed. There was \$0 and \$1,561 in deferred offering costs classified as other current assets as of June 30 and December 31, 2013, respectively.

(g) Recently Issued Accounting Standards

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on the Company's consolidated financial statements upon adoption.

(3) Balance Sheet Information

The following tables provide details of selected consolidated balance sheet items:

Capitalized software and accumulated amortization were as follows:

	June 30, 2013	December 31, 2013
Internally developed software	\$ 15,189	\$ 17,048
Accumulated amortization	(12,575)	(13,804)
Capitalized software, net	<u>\$ 2,614</u>	<u>\$ 3,244</u>

Amortization of capitalized internal-use software costs was \$1,595 and \$1,229 for the six months ended December 31, 2012 and 2013, respectively and is included in Cost of Revenues-Recurring Revenues.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(3) Balance Sheet Information (Continued)

Property and equipment consist of the following:

	June 30, 2013	December 31, 2013
Office equipment	\$ 1,350	\$ 1,346
Computer equipment	4,665	6,456
Furniture and fixtures	1,433	1,778
Automobiles	36	36
Software	3,791	4,404
Leasehold improvements	3,917	4,887
Time clocks rented by clients	1,649	1,693
	<u>16,841</u>	<u>20,600</u>
Accumulated depreciation and amortization	(8,255)	(9,610)
Property and equipment, net	<u>\$ 8,586</u>	<u>\$ 10,990</u>

Depreciation expense amounted to \$1,138 and \$1,695 for the six months ended December 31, 2012 and 2013, respectively.

The components of accrued expenses were as follows:

	June 30, 2013	December 31, 2013
Accrued payroll and personnel costs	\$ 5,549	\$ 5,629
Reseller fees	259	372
Other	986	1,387
Total Accrued expenses	<u>\$ 6,794</u>	<u>\$ 7,388</u>

(4) Stockholder's Equity (Deficit)**Common Stock**

Holders of common stock are entitled to one vote per share and to receive dividends. The holders have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common stock is subordinate to the redeemable convertible preferred stock with respect to dividend rights and rights upon liquidation, winding up and dissolution of the Company.

(5) Redeemable Convertible Preferred Stock

The Company has two series of Redeemable Convertible Preferred Stock, Series A and Series B.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(5) Redeemable Convertible Preferred Stock (Continued)

The Series A Redeemable Convertible Preferred Stock, with a par value of \$0.001 per share, has a liquidation preference senior to the common stock. In the event of liquidation as defined in the Company's charter, the Series A Redeemable Convertible Preferred Stock is entitled to a liquidation preference equal to the original issue price of each respective share of Series A Redeemable Convertible Preferred Stock plus unpaid and accrued and declared dividends. The liquidation amount of the Series A Redeemable Convertible Preferred Stock is capped at 2.25 times the original issue price of the Series A Redeemable Convertible Preferred Stock. Series A Redeemable Convertible Preferred Stockholders are entitled to a 6% cumulative preferred dividend computed on the contributed investment of \$9,500 payable when declared by the Company. No dividends may be declared and paid on the Company's common stock until such time as the Company has paid in full any dividends actually accrued on such Redeemable Convertible Preferred Stock. No such dividends have been declared as of June 30 and December 31, 2013. Cumulative unpaid preferred dividends total approximately \$3,310 and \$3,694 and were \$0.35, and \$0.39 per share of Series A Redeemable Convertible Preferred Stock as of June 30 and December 31, 2013, respectively. Proceeds from the issuance were offset by issuance costs of \$161.

On June 29, 2012, the Company authorized 8,500 shares of \$0.001 par value Series B Redeemable Convertible Preferred Stock and issued 8,400 shares at approximately \$3.25 a share to investors. Proceeds from the issuance were used to redeem common stock.

The Series B Redeemable Convertible Preferred Stock, with a par value of \$0.001 per share, has a liquidation preference senior to the common stock and is *pari passu* with the Series A Redeemable Convertible Preferred Stock. In the event of liquidation as defined in the Company's charter, the holders of Series B Redeemable Convertible Preferred Stock are entitled to a liquidation preference equal to original issue price of each respective share of Series B Redeemable Convertible Preferred Stock plus unpaid and accrued and declared dividends. If such liquidation occurs on or before the second anniversary of the initial issuance of the Series B Redeemable Convertible Preferred Stock, then the Series B Redeemable Convertible Preferred Stockholder is entitled to an additional amount equal to 10% of the original issue price on each outstanding share of Series B Redeemable Convertible Preferred Stock per annum. Series B Redeemable Convertible Preferred Stockholders are entitled to an 8% cumulative preferred dividend computed on the investment amount of \$27,284 payable when declared by the Company. No dividends may be declared and paid on the Company's common stock until such time as the Company has paid in full any dividends actually accrued on such Preferred Stock. No such dividends have been declared as of June 30 and December 31, 2013. Cumulative unpaid preferred dividends totaled approximately \$2,190 and \$3,367 and were \$0.26 and \$0.40 per share of Series B Redeemable Convertible Preferred Stock as of December 31, 2012 and 2013, respectively. Proceeds from the issuance were offset by issuance costs of \$50.

The Series A and B Redeemable Convertible Preferred Stockholders (together the "Preferred Stockholders") have the right to vote on certain corporate matters on an as converted basis with the common stock as a single class. In addition to the preferential cumulative dividends, holders of Series A and Series B Redeemable Convertible Preferred Stock are entitled to receive, on an

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(5) Redeemable Convertible Preferred Stock (Continued)

if-converted basis, when set aside or paid by the Company, any dividends on the Company's common stock. At any time, the Preferred Stockholders can convert all or any portion of such shares into the aggregate number of shares of common stock at the respective conversion rate, as defined in the agreement, currently one-for-one. Upon the closing of the sale of common stock to the public at a price of at least \$5.6842, which also must result in at least \$50,000 of gross proceeds, the Series A and Series B Redeemable Convertible Preferred Stock would automatically convert into common stock at the respective conversion rate, as defined in the agreement, currently one-for-one.

At any time following the third anniversary of the initial issuance of the Series B Redeemable Convertible Preferred Stock, the majority holders of Series A and Series B Redeemable Convertible Preferred Stock may require the Company to redeem all of the Series A and Series B Redeemable Convertible Preferred Stock upon notice to the Company. Upon such an occurrence, the Company will reclassify as a liability any remaining Series A and Series B Redeemable Convertible Preferred Stock and adjust their carrying amount to fair market value in accordance with FASB ASC 480-10-55-11 *Distinguishing Liabilities from Equity*. However, this redemption feature terminates upon the conversion of the Series A and Series B Redeemable Convertible Preferred Stock into Common Stock, the successful completion of a qualified IPO or the closing of a deemed liquidation event as described in the Company's Certificate of Incorporation. As a result of these features of the Series A and Series B Redeemable Convertible Preferred Stock, the Company concluded that the likelihood of the Series A and Series B Redeemable Convertible Preferred Stock becoming redeemable was not probable. As such, no adjustment to the carrying value of the Redeemable Convertible Preferred Shares was required.

(6) Benefit Plans

(a) Equity Incentive Plan

The Company has established the 2008 Equity Incentive Plan (the "Plan"). The Plan authorizes the granting of options to purchase common stock and other equity incentives at the discretion of the Company's Board of Directors to certain employees. Under the Plan, the exercise price of each option approximates the fair value of a share of common stock on the grant date. As a privately owned company, the fair value of a share of common stock is determined contemporaneously with the award by the Company's board of directors, including by reference to valuation assessments by third-party valuation consultants utilizing the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. Options are granted at various dates, have a maximum term of ten years, and typically vest over four years.

The Company recorded \$261 and \$349 of stock based compensation expense for the six months ended December 31, 2012 and 2013, respectively. Stock based compensation expense is recorded in General and Administrative expense to coincide with the salaries and benefits of the individuals participating in the plan.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(6) Benefit Plans (Continued)

The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions for 2012 and 2013 grants are provided in the following table. The Company uses company-specific historical data to estimate the expected term of the option, such as employee option exercise and employee post-vesting departure behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since the Company's shares are not publicly traded and its shares are rarely traded privately, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant.

Valuation assumptions:	Period ended December 31,	
	2012	2013
Expected dividend yield	0%	0%
Expected volatility	30.7%	29.5%
Expected term (years)	4.0	4.0
Risk-free interest rate	0.61%	0.52%

Stock option activity during the periods indicated is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Balance at July 1, 2013	2,789	\$ 2.17	8.22	\$ 7,028
Granted	775	4.69	9.53	
Exercised	—	—	—	
Balance at December 31, 2013	3,564	\$ 2.72	8.11	\$ 7,028
Options exercisable at December 31, 2013	1,249	\$ 1.66	7.26	\$ 3,788
Options vested and expected to vest at December 31, 2013	2,990	\$ 2.53	7.96	\$ 6,460

The weighted average grant date fair value of options granted during the six-month period ended December 31, 2012 and 2013 was \$0.81 and \$1.14, respectively. The total intrinsic value of options exercised during the six month period ended December 31, 2012 was \$87. There were no options exercised in the six month period ended December 31, 2013.

At December 31, 2013, there was \$938 of total unrecognized compensation cost related to unvested stock options granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.11 years.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(6) Benefit Plans (Continued)

The Company may also grant Restricted Stock Awards ("RSAs") under the Plan with terms determined at the discretion of the Company's Board of Directors. The RSAs vest and become exercisable upon occurrence of a change in control or initial public offering, as defined in the Plan. The holders of RSAs have similar rights to common stockholders. As of December 31, 2012 and 2013 the Company had 404 RSAs outstanding to certain employees. No compensation expense is reflected in the accompanying financial statements for RSAs as such expense will be recorded upon vesting.

The Company currently uses authorized and unissued shares to satisfy option exercises and share award vesting. As of December 31, 2013, the Company authorized 4,512 shares of common stock reserved for issuance under the plan, of which 444 are available for future grants.

(b) 401(k) Plan

The Company maintains a 401(k) plan with a safe harbor matching provision that covers all eligible employees. The Company matches 50% of the employees' contributions up to 6% of their gross pay. Contributions were \$297 and \$477 for the six months ended December 31, 2012 and 2013, respectively.

(7) Commitments and Contingencies

Reseller Agreements

The Company has agreements with two resellers. The initial term of the first reseller agreement commenced in February 2007 and expires in February 2016 unless renewed. The initial term of the second reseller agreement commenced in June 2009 and expires in June 2016 unless renewed. Each of the Company's reseller agreements provides that the Company is required upon a termination of the agreement to acquire the assets of the reseller.

The first reseller agreement provides that either party may terminate the agreement by electing not to renew the agreement beyond its original term. The Company, but not the reseller, also has the right to terminate the agreement at any time following the completion of an initial public offering by the Company. If a termination were to occur as a result of the Company's election following the completion of this offering, the purchase price of the assets would be equal to three times the net revenues of the reseller for the three months preceding the termination effective date times four plus the annual W-2 revenue of the reseller for the 12 months preceding the termination effective date. The Company paid the first reseller \$1.0 million and \$1.4 million during the six-month periods ended December 31, 2012 and 2013, respectively.

The second reseller agreement provided that the reseller may terminate the agreement by providing nine months' prior notice or upon an initial public offering by the Company. The Company amended this agreement in December of 2013 to provide that the reseller may not give a nine-month termination notice until after the earlier of (i) six months following the closing of an initial public offering by the Company or (ii) December 31, 2014. In addition, the Company, but not the reseller, now has the right to terminate the agreement at any time after the date that is six months

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(7) Commitments and Contingencies (Continued)

following the completion of an initial public offering by the Company. If a termination were to occur, the purchase price of the assets would be equal to 3.3 times the net revenues of the reseller for the 12 months preceding the termination effective date. The Company paid the second reseller \$0.8 million and \$1.0 million during the six-month periods ended December 31, 2012 and 2013, respectively.

(8) Earnings Per Share

Basic and diluted net income (loss) per common share is presented in conformity with the two-class method required for participating securities. Immediately prior to the completion of the Company's Initial Public Offering, all shares of outstanding Preferred Stock are expected to automatically convert into shares of the Company's common stock. Holders of Series A and holders of Series B Preferred Stock are entitled to liquidation preferences as outlined in Note 4 to the financial statements payable prior and in preference to any dividends on any shares of the Company's common stock.

In the event a dividend is paid on common stock, the holders of Preferred Stock are entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as-if converted basis). The holders of the Company's Preferred Stock do not have a contractual obligation to share in the losses of the Company. The Company considers its Preferred Stock to be participating securities and, in accordance with the two-class method, earnings allocated to Preferred Stock and the related number of outstanding shares of Preferred Stock have been excluded from the computation of basic and diluted net income (loss) per common share.

Under the two-class method, net income (loss) attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period Redeemable Convertible Preferred Stock cumulative dividends, between common stock and Redeemable Convertible Preferred Stock. In computing diluted net income (loss) attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities.

Basic net loss per common share is computed using the weighted-average number of common shares outstanding during the period. Since the Series A and Series B Redeemable Convertible Preferred Stock are entitled to participate should any common stock dividends be declared but are not obligated to participate in any losses generated by the Company, basic net income per share is computed using the weighted-average number of common shares outstanding during the period plus the Series A and Series B Redeemable Convertible Preferred Stock on a weighted-average basis.

Diluted net loss per share is computed using the weighted-average number of common shares outstanding during the period and, if dilutive, potential common shares outstanding during the period. Since the Series A and Series B Redeemable Convertible Preferred Stock are entitled to participate should any common stock dividends be declared but are not obligated to participate in any losses generated by the Company, diluted net income per share is computed using the weighted-average number of common shares plus the Series A and Series B Redeemable

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(8) Earnings Per Share (Continued)

Convertible Preferred Stock on a weighted-average basis and, if dilutive, potential common shares outstanding during the period. The Company's potential common shares consist of the Incremental common shares issuable upon the exercise of stock options. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method.

Restricted Stock Awards are excluded from both basic and diluted earnings per share calculations as the vesting conditions have not been met as of December 31, 2013.

The following table presents the calculation of basic and diluted net loss per share:

	Six months ended December 31,	
	2012	2013
Basic net loss per share:		
Numerator:		
Net loss	\$ (1,032)	\$ (1,556)
Less: Preferred dividend rights attributable to participating securities	(1,454)	(1,562)
Net loss attributable to common stockholders	<u>\$ (2,486)</u>	<u>\$ (3,118)</u>
Denominator:		
Weighted-average shares used in computing net loss per share attributable to common stockholders:		
Basic (in thousands)	47,983	47,983
Weighted-average effect of potentially dilutive shares:		
Employee stock options (in thousands)	—	—
Diluted (in thousands)	<u>47,983</u>	<u>47,983</u>
Net loss per share attributable to common stockholders:		
Basic	\$ (0.05)	\$ (0.06)
Diluted	\$ (0.05)	\$ (0.06)

Potentially dilutive employee stock options were omitted from the calculations because the effect of their inclusion was antidilutive. Series A and Series B Redeemable Convertible Preferred Stock were omitted from the basic and diluted net loss per share calculations because Stockholders of those issuances are not obligated to participate in the losses generated by the Company as enumerated in the Company's Articles of Incorporation.

Pro Forma Net Loss Per Common Share

The numerator and denominator used in computing the unaudited pro forma net loss per common share for the six months ended December 31, 2013 have been adjusted to assume the conversion of all outstanding shares of redeemable convertible preferred stock into common stock as well as the vesting of the RSAs as of the beginning of the period presented or at the time of

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(8) Earnings Per Share (Continued)

issuance, if later. Pro forma net loss per share does not give effect to potential dilutive securities where the impact would be anti-dilutive. Pro forma net loss per common share also excludes \$351 of compensation expense associated with the automatic vesting of employee RSAs which the Company would have recorded upon successful completion of the qualifying event on December 31, 2013.

	Six months ended December 31, 2013
Numerator:	
Net loss	\$ (1,556)
Net loss attributable to common stockholders	<u>\$ (1,556)</u>
Denominator:	
Historical denominator for basic and diluted net loss per common share—weighted average common shares (in thousands)	47,983
Plus: assumed conversion of redeemable convertible preferred stock to common stock and vesting of RSAs (in thousands)	18,304
Denominator for pro forma basic and diluted net loss per common share (in thousands)	<u>66,287</u>
Pro forma basic and diluted net loss per common share	\$ (0.02)

(9) Line of Credit

On November 27, 2013, the Company's line of credit was increased to \$3,500 and the due date was extended to December 31, 2015. There were no borrowings against the line of credit as of June 30 and December 31, 2013.

(10) Income Taxes

The Company's effective tax rate of 44.3% for the six months ended December 31, 2013 differed from statutory rates primarily due to the benefits from federal and state research and development credits available to the Company and expenses not deductible for income tax reporting purposes. The Company's effective tax rate of 39.8% for the six months ended December 31, 2012 differed from statutory rates primarily due to state research and development credits available to the Company and expenses not deductible for income tax reporting purposes. No federal research and development credits were available to the Company for the six months ended December 31, 2012 given the lack of authorizing legislation during that period.

PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(unaudited)

(11) Related Party Transactions

The Company purchased sales leads from an entity owned by one of the stockholders in the amount of approximately \$424 and \$231 for the six months ended December 31, 2012 and 2013, respectively. The Company provided no management guidance to the entity and had no equity interest in the entity, no obligation or intention to fund any of the entity's operational shortfalls, and no right to any operational surpluses generated by the entity. Accounts payable due to this entity were approximately \$65 and \$0 of June 30 and December 31, 2013, respectively.

As of October 14, 2013, the Company hired substantially all of the employees of, and no longer purchases sales leads from, the sales lead generation entity described above.

(12) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through January 30, 2014, the date at which the financial statements were available to be issued.

Shares



Paylocity Holding Corporation

Common Stock

Deutsche Bank Securities

BofA Merrill Lynch

William Blair

JMP Securities

Raymond James

Needham & Company

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than the underwriting discounts and commissions payable by us, in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee, the Financial Industry Regulatory Authority, or FINRA, filing fee and the NASDAQ Global Select Market listing fee.

SEC registration fee	\$	14,812
FINRA filing fee		17,750
NASDAQ Global Select Market listing fee		150,000
Blue sky fees and expenses		5,000
Transfer agent and registrar fees		10,000
Accounting fees and expenses		*
Legal fees and expenses		*
Printing and engraving costs		*
Miscellaneous expenses		*
Total	\$	*

* To be completed by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act.

As permitted by the Delaware General Corporation Law, our restated certificate of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, except for liability:

- For any breach of the director's duty of loyalty;
- For acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- Under section 174 of the Delaware General Corporation law regarding unlawful dividends and stock purchases; or
- For any transaction for which the director derived an improper personal benefit.

As permitted by the Delaware General Corporation Law, our bylaws provide that:

- We are required to indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to very limited exceptions;
- We may indemnify our other employees and agents to the fullest extent permitted by the Delaware General Corporation Law, subject to very limited exceptions;
- We are required to advance expenses, as incurred, to our directors and officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to very limited exceptions;

- We may advance expenses, as incurred, to our employees and agents in connection with a legal proceeding; and
- The rights conferred in the bylaws are not exclusive.

We intend to enter into indemnity agreements with each of our current directors and officers to give these directors and officers additional contractual assurances regarding the scope of the indemnification set forth in our restated certificate of incorporation and to provide additional procedural protections. At present, there is no pending litigation or proceeding involving our directors, officers or employees regarding which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

The indemnification provisions in our restated certificate of incorporation and amended and restated bylaws and the indemnity agreements entered into between us and each of our directors and officers may be sufficiently broad to permit indemnification of the our directors and officers for liabilities arising under the Securities Act.

Reference is also made to the underwriting agreement, which provides for the indemnification of our officers, directors and controlling persons against certain liabilities.

We are seeking to obtain directors' and officers' liability insurance and expect the insurance to include coverage for securities matters.

Item 15. Recent Sales of Unregistered Securities

Since October 1, 2010, we have sold and issued the following unregistered securities:

- In June 2012, we issued 8,399,899 shares of our Series B preferred stock to a total of 8 accredited investors at a price of \$3.2481 per share resulting in an aggregate purchase price of \$27,283,712.
- From October 1, 2010 through December 31, 2013, we issued options to our employees to purchase an aggregate of 2,851,500 shares of our common stock under our 2008 Equity Incentive Plan, with exercise prices ranging from \$1.52 to \$4.69 per share.

No underwriters were involved in the foregoing sales of securities. The issuances of the securities described above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
2.1†	Share Exchange Agreement, dated November 7, 2013.
3.1†	Certificate of Incorporation of the Registrant, as currently in effect.
3.1.1*	First Certificate of Amendment to Certificate of Incorporation, dated February , 2014.
3.2	Amended and Restated Certificate of Incorporation of the Registrant, to be effective upon the closing of the offering.
3.3†	Bylaws of the Registrant, as currently in effect.

[Table of Contents](#)

Exhibit Number	Description
3.4	Form of Amended and Restated Bylaws of the Registrant, to be effective upon closing of the offering.
4.1†	Amended and Restated Investor Rights Agreement, dated June 29, 2012.
4.2†	Amended and Restated Right of First Refusal and Co-Sale Agreement, dated June 29, 2012.
4.3†	Amended and Restated Voting Agreement, dated June 29, 2012.
4.4†	Promissory Note, dated March 9, 2011, payable to Commerce Bank & Trust Company.
4.5.1†	Revolving Line of Credit Note, dated March 9, 2011, payable to Commerce Bank & Trust Company.
4.5.2†	Allonge to Revolving Line of Credit Note, dated November 27, 2013.
5.1*	Opinion of DLA Piper LLP (US).
10.1†	Loan and Security Agreement by and among Commerce Bank & Trust Company and Paylocity Corporation, dated May 5, 2009.
10.1.1†	First Amendment to Loan and Security Agreement, dated March 9, 2011.
10.2†	Form of Indemnification Agreement for directors and officers.
10.3†	2008 Equity Incentive Plan and forms of agreement thereunder.
10.3.1†	First Amendment to the 2008 Equity Incentive Plan, dated August 5, 2010.
10.3.2†	Second Amendment to the 2008 Equity Incentive Plan, dated June 29, 2012.
10.4	2014 Equity Incentive Plan and forms of agreement thereunder.
10.5	Third Amended and Restated Executive Employment Agreement between Paylocity Corporation and Steven R. Beauchamp, dated February 7, 2014.
10.6†	Employment Agreement between Paylocity Corporation and Steven I. Sarowitz, effective July 1, 2013.
10.7	Second Amended and Restated Executive Employment Agreement between Paylocity Corporation and Michael R. Haske, dated February 7, 2014.
10.8†	Office Lease between 3850 Wilke LLC and Paylocity Corporation, dated January 12, 2007.
10.8.1†	Amendment to Office Lease, dated January 5, 2011.
10.8.2†	Amendment to Office Lease, dated May 6, 2013.
10.9	2014 Employee Stock Purchase Plan.
21.1†	List of subsidiaries of the Registrant.
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.
23.2*	Consent of DLA Piper LLP (US) (included in Exhibit 5.1).
24.1†	Power of Attorney (see page II-5 to this registration statement on Form S-1).

† Previously filed.

* To be filed by amendment.

(b) Financial Statement Schedules

All financial statement schedules are omitted because the information called for is not required or is shown either in the consolidated financial statements or in the notes thereto.

Item 17. Undertakings

The registrant hereby undertakes to provide to the underwriters, at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by the registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced in Item 14 of this registration statement or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

**FIRST AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
PAYLOCITY HOLDING CORPORATION**

(Pursuant to Sections 242 and 245 of the
General Corporation Law of the State of Delaware)

Paylocity Holding Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the “*Delaware General Corporation Law*”),

DOES HEREBY CERTIFY:

1. That the name of the corporation is Paylocity Holding Corporation, and that this corporation was originally incorporated pursuant to the Delaware General Corporation Law on November 6, 2013 under the name Paylocity Holding Corporation.
2. That the Board of Directors of the corporation duly adopted resolutions proposing to amend and restate the Certificate of Incorporation, as amended, of this corporation, declaring said amendment and restatement to be advisable and in the best interests of this corporation and its stockholders, and authorizing the appropriate officers of this corporation to solicit the consent of the stockholders therefor.
3. The text of the Certificate of Incorporation is hereby amended and restated to read in its entirety as follows:

ARTICLE I

The name of the corporation is Paylocity Holding Corporation (hereinafter referred to as the “*Corporation*”).

ARTICLE II

The address of the Corporation’s registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, 19801. The name of the Corporation’s registered agent at such address is The Corporation Trust Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the Delaware General Corporation Law.

1

ARTICLE IV

A. The total number of shares of capital stock of all classes which the Corporation shall have authority to issue is 160,000,000 shares, consisting of: 155,000,000 shares of common stock, par value \$0.001 per share (“*Common Stock*”) and 5,000,000 shares of preferred stock, par value \$0.001 per share (“*Preferred Stock*”).

B. Except as otherwise restricted by this First Amended and Restated Certificate of Incorporation (this “*Certificate*”), the Corporation is authorized to issue, from time to time, all or any portion of the capital stock of the Corporation which may have been authorized but not issued, to such person or persons and for such lawful consideration as it may deem appropriate, and generally in its absolute discretion to determine the terms and manner of any disposition of such authorized but unissued capital stock.

Any and all such shares issued for which the full consideration has been paid or delivered shall be deemed fully paid shares of capital stock, and the holder of such shares shall not be liable for any further call or assessment or any other payment thereon.

C. The designations and the powers, preferences and rights and qualifications, limitations or restrictions of the shares of each class of stock are as follows:

1. Common Stock

(a) Each holder of record of shares of Common Stock shall be entitled to one vote for each share of Common Stock held on all matters submitted to a vote of stockholders of the Corporation on which holders of Common Stock are entitled to vote.

(b) The holders of shares of Common Stock shall not have cumulative voting rights (as defined in Section 214 of the DGCL).

(c) Subject to the rights of the holders of Preferred Stock, and subject to any other provisions of this Certificate, as it may be amended from time to time, holders of shares of Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or property of the Corporation if, as and when declared thereon by the Board of Directors of the Corporation (the “*Board of Directors*”) from time to time out of assets or funds of the Corporation legally available therefor.

(d) In the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, after payment or provision for the payment of the debt and liabilities of the Corporation and subject to the prior payment in full of the preferential amounts, if any, to which any series of Preferred Stock may be entitled, the holders of shares of Common Stock shall be entitled to receive the assets and funds of the Corporation remaining for distribution in proportion to the number of shares held by them, respectively.

(e) No holder of shares of Common Stock shall be entitled to preemptive or subscription rights.

2. **Preferred Stock.** The shares of Preferred Stock shall initially be undesignated and may be issued from time to time in one or more additional series by the Board of Directors. The Board of Directors is hereby authorized, subject to any limitations prescribed by law, to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon a wholly-unissued series of

Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them; and to increase or decrease the number of shares constituting any such series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but, in respect of decreases, not below the number of shares of such series then outstanding. In case the number of shares of any series should be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolutions originally fixing the number of shares of such series. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the outstanding shares of Common Stock without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the certificate or certificates establishing any series of Preferred Stock.

ARTICLE V

The Corporation is to have a perpetual existence.

ARTICLE VI

The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

- A. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by law or by this Certificate or the bylaws of the Corporation, as the same may be amended from time to time (the “*Bylaws*”), the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.
- B. The directors of the Corporation need not be elected by written ballot unless the Bylaws so provide.
- C. Subject to the rights of the holders of any series of Preferred Stock, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.
- D. Subject to the rights of the holders of any series of Preferred Stock then outstanding, special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption), the Chairman of the Board or the Chief Executive Officer.
- E. The number of directors shall be set at five (5) and, thereafter, shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption). Upon the closing date of the first sale of the Corporation’s Common Stock pursuant to a firmly underwritten registered public offering (the “*Effective Date*”), the directors shall be divided into three classes with the term of office of the first class (Class I) to expire at the first annual meeting of the stockholders following the Effective Date; the term of office of the second class (Class II) to expire at the second annual meeting

of stockholders following the Effective Date; the term of office of the third class (Class III) to expire at the third annual meeting of stockholders following the Effective Date; and thereafter for each such term to expire at each third succeeding annual meeting of stockholders after such election. All directors shall hold office until the expiration of the term for which elected, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director.

- F. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation or other cause (including removal from office by a vote of the stockholders described in Article VI(G) below) may be filled only by a majority vote of the directors then in office, though less than a quorum, or by the sole remaining director, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders at which the term of office of the class to which they have been elected expires, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.
- G. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. Vacancies in the Board of Directors resulting from such removal may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director. Directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders at which the term of office of the class to which they have been elected expires, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director.

ARTICLE VII

No person shall be personally liable to the Corporation or its stockholders for monetary damages for breach of his or her fiduciary duty as a director of the Corporation, except for liability (i) for any breach of the director’s duty of loyalty to the Corporation or its stockholders, (ii) for any acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any

transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law hereafter is amended to authorize further elimination or limitation of the liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended Delaware General Corporation Law. Any repeal or modification of this paragraph by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

The Corporation shall indemnify any director or officer to the fullest extent permitted by Delaware law.

ARTICLE VIII

All of the powers of the Corporation, insofar as the same may be lawfully vested by this Certificate in the Board of Directors, are hereby conferred upon the Board of Directors.

4

ARTICLE IX

The Board of Directors is expressly empowered to adopt, amend or repeal the Bylaws. Any adoption, amendment or repeal of the Bylaws by the Board of Directors shall require the approval of a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any resolution providing for adoption, amendment or repeal is presented to the Board of Directors). The stockholders shall also have power to adopt, amend or repeal the Bylaws. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any adoption, amendment or repeal of Bylaws by the stockholders shall require, in addition to any vote of the holders of any class or series of stock of the Corporation required by law or by this Certificate, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

ARTICLE X

The Corporation reserves the right to amend or repeal any provision contained in this Certificate in the manner prescribed by the laws of the State of Delaware and all rights conferred upon stockholders are granted subject to this reservation; provided, that, notwithstanding any other provision of this Certificate or any provision of law which might otherwise permit a lesser vote or no vote, but subject to the rights of the holders of any series of Preferred Stock then outstanding and in addition to any vote of the holders of any class or series of the stock of this Corporation required by law or by this Certificate, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal any of the Articles in this Certificate.

ARTICLE XI

To the fullest extent permitted by law, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim against the Corporation arising pursuant to any provision of the Delaware General Corporation Law, this Certificate or the Bylaws, or (iv) any action asserting a claim against the Corporation governed by the internal affairs doctrine.

5

IN WITNESS WHEREOF, the Corporation has caused this First Amended and Restated Certificate of Incorporation to be signed by the undersigned officer, thereunto duly authorized, on this day of February, 2014.

PAYLOCITY HOLDING CORPORATION

By: _____
Steven Beauchamp
Chief Executive Officer

[Signature Page to First Amended and Restated Certificate of Incorporation]

**AMENDED AND RESTATED BYLAWS OF
PAYLOCITY HOLDING CORPORATION**

**ARTICLE I
STOCKHOLDERS**

1.1 Place of Meetings. All meetings of stockholders shall be held at such place (if any) within or without the State of Delaware as may be determined from time to time by the Board of Directors or, if not determined by the Board of Directors, by the Chairman of the Board, the President or the Chief Executive Officer; provided that the Board of Directors may, in its sole discretion, determine that any meeting of stockholders shall not be held at any place but shall be held solely by means of remote communication in accordance with Section 1.13.

1.2 Annual Meeting. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held on a date to be fixed by the Board of Directors at a time to be fixed by the Board of Directors and stated in the notice of the meeting.

1.3 Special Meetings. Special meetings of stockholders may be called at any time by the Board of Directors, the Chairman of the Board or the Chief Executive Officer, for any purpose or purposes prescribed in the notice of the meeting and shall be held on such date and at such time as the Board may fix. Business transacted at any special meeting of stockholders shall be confined to the purpose or purposes stated in the notice of meeting.

1.4 Notice of Meetings.

(a) Written notice of each meeting of stockholders, whether annual or special, shall be given not less than 10 nor more than 60 days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting as of the record date fixed by the Board of Directors for determining the stockholders entitled to notice of the meeting, except as otherwise provided herein or as required by law (meaning here and hereafter, as required from time to time by the Delaware General Corporation Law or the Certificate of Incorporation of the corporation). The notice of any meeting shall state the place, if any, date and hour of the meeting, and the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting. The notice of a special meeting shall state, in addition, the purpose or purposes for which the meeting is called.

(b) Notice to stockholders may be given by personal delivery, mail, or, with the consent of the stockholder entitled to receive notice, by facsimile or other means of electronic transmission. If mailed, such notice shall be delivered by postage prepaid envelope directed to each stockholder at such stockholder's address as it appears in the records of the corporation and shall be deemed given when deposited in the United States mail. Notice given by electronic transmission pursuant to this subsection shall be deemed given: (1) if by facsimile telecommunication, when directed to a facsimile telecommunication number at which the stockholder has consented to receive notice; (2) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (3) if by posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (4) if by any other form of electronic transmission, when directed to the stockholder. An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by personal delivery, by mail, or by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

(c) Notice of any meeting of stockholders need not be given to any stockholder if waived by such stockholder either in a writing signed by such stockholder or by electronic transmission, whether such waiver is given before or after such meeting is held. If such a waiver is given by electronic transmission, the electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder.

1.5 Voting List. The officer who has charge of the stock ledger of the corporation shall prepare, at least 10 days before each meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date, arranged in alphabetical order for each class of stock and showing the mailing address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least 10 days prior to the meeting: (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, (b) during ordinary business hours at the principal place of business of the corporation or (c) in any other manner provided by law. If the meeting is to be held at a place, the list shall be produced and kept at the time and place of the meeting during the whole time of the meeting, and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, such list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. The stock ledger shall be the only evidence as to the stockholders who are entitled to examine the list required by this Section 1.5 or to vote in person or by proxy at any meeting of stockholders.

1.6 Quorum. Except as otherwise provided by law or these Bylaws, the holders of a majority of the shares of the capital stock of the corporation entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business. Where a separate class vote by a class or classes or series is required, a majority of the shares of such class or classes or series present in person or represented by proxy shall constitute a quorum entitled to take action with respect to that vote on that matter.

1.7 Adjournments. Any meeting of stockholders may be adjourned to any other time and to any other place at which a meeting of stockholders may be held under these Bylaws by the chairman of the meeting or, in the absence of such person, by any officer entitled to preside at or to act as secretary of such meeting, or by the holders of a majority of the shares of stock present or represented at the meeting and entitled to vote, although less than a quorum. When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the date, time and place, if any, thereof, and the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than 30 days after the date for which the meeting was originally noticed, or if the Board of Directors fixes a new record date for determining the stockholders entitled to vote at the adjourned meeting in accordance with Section 4.5, written notice of the place, if any, date and time of the adjourned meeting and the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting, shall be given in conformity herewith. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting.

1.8 Voting and Proxies. Each stockholder shall have one vote for each share of stock entitled to vote held of record by such stockholder and a proportionate vote for each fractional share so held,

2

unless otherwise provided by law or in the Certificate of Incorporation. Each stockholder of record entitled to vote at a meeting of stockholders may vote in person or may authorize any other person or persons to vote or act for such stockholder by a written proxy executed by the stockholder or the stockholder's authorized agent or by an electronic transmission permitted by law and delivered to the Secretary of the corporation. Any copy, facsimile transmission or other reliable reproduction of the writing or electronic transmission created pursuant to this section may be substituted or used in lieu of the original writing or electronic transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile transmission or other reproduction shall be a complete reproduction of the entire original writing or electronic transmission.

1.9 Action at Meeting.

(a) At any meeting of stockholders for the election of one or more directors at which a quorum is present, the election shall be determined by a plurality of the votes cast by the stockholders entitled to vote at the election.

(b) All other matters shall be determined by a majority in voting power of the shares present in person or represented by proxy and entitled to vote on the matter (or if there are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, a majority of the shares of each such class present in person or represented by proxy and entitled to vote on the matter shall decide such matter), provided that a quorum is present, except when a different vote is required by express provision of law, the Certificate of Incorporation or these Bylaws.

(c) All voting, including on the election of directors, but excepting where otherwise required by law, may be by a voice vote; provided, that upon demand therefor by a stockholder entitled to vote or the stockholder's proxy, a vote by ballot shall be taken. Each ballot shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. The corporation may, and to the extent required by law, shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The corporation may designate one or more persons as an alternate inspector to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting may, and to the extent required by law, shall, appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath to faithfully execute the duties of inspector with strict impartiality and according to the best of his ability.

1.10 Stockholder Business (Other Than the Election of Directors).

(a) Only such business (other than nominations for election of directors, which is governed by Section 2.15 of these Bylaws) shall be conducted as shall have been properly brought before an annual meeting. To be properly brought before an annual meeting, business must be either (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder who (A) is a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such business is proposed, only if such beneficial owner is the beneficial owner of shares of the corporation) both at the time of giving the notice provided for in this Section 1.10 and at the time of the meeting, (B) is entitled to vote at the meeting and (C) has complied with the notice procedures set forth in this Section 1.10 as to such business. For any business to be properly brought before an annual meeting by a stockholder (other than nominations for election of directors, which is governed by Section 2.15 of these Bylaws), it must be a proper matter for stockholder action under the Delaware General Corporation Law,

3

and the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice shall be in writing and must be received at the corporation's principal executive offices not later than 90 days nor earlier than 120 days prior to the first anniversary of the date of the preceding year's annual meeting as first specified in the corporation's notice of meeting (without regard to any postponements or adjournments of such meeting after such notice was first sent), provided, however, that if no annual meeting was held in the previous year or the date of the annual meeting is advanced by more than thirty (30) days, or delayed (other than as a result of adjournment) by more than thirty (30) days from the anniversary of the previous year's annual meeting, notice by the stockholder to be timely must be received not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the date on which public announcement of the date of such meeting is first made. "**Public announcement**" for purposes hereof shall have the meaning set forth in Section 2.15(c) of these Bylaws. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. For business to be properly brought before a special meeting by a stockholder, the business must be limited to the purpose or purposes set forth in a request under Section 1.3.

(b) A stockholder's notice to the Secretary of the corporation shall set forth (i) as to each matter the stockholder proposes to bring before the annual meeting, a brief description of the business desired to be brought before the annual meeting and the text of the proposal or business, including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the corporation, the language of the proposed amendment, and (ii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is being made, and any of their respective affiliates or associates or others acting in concert therewith (each, a "**Proposing Person**"), (A) the name and address, as they appear on the corporation's books, of the stockholder proposing such business and of any other Proposing Person, (B) the class or series and number of shares of the corporation which are owned beneficially and of record by the stockholder and any other Proposing Person as of the date of the notice, and a representation that the stockholder will notify the corporation in writing within five (5) business days after the record date for voting at the meeting of the class or series and number of shares of the corporation owned beneficially and of record by the stockholder and any other Proposing Person as of the record date for voting at the meeting, (C) a representation that the stockholder intends to appear in person or by proxy at the meeting to propose the business specified in the notice, (D) any material interest of the stockholder and any other Proposing Person in such business, (E) the following information regarding the ownership interests of the stockholder and any other Proposing Person which shall be supplemented in writing by the stockholder not later than ten (10) days after the record date for voting at the meeting to disclose such interests as of such record date: (1) a description of any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, any derivative or synthetic arrangement having the characteristics of a long position in any class or series of shares of the corporation, or any contract, derivative, swap or other transaction or series of transactions designed to produce economic benefits and risks that correspond substantially to the ownership of any class or series of shares of the corporation, including due to the fact that the value of such contract, derivative, swap or other transaction or series of transactions is determined by reference to the price, value or volatility of any class or

series of shares of the corporation, whether or not such instrument, contract or right shall be subject to settlement in the underlying class or series of shares of the corporation, through the delivery of cash or other property, or otherwise, and without regard to whether the stockholder of record or any other Proposing Person may have entered into transactions that hedge or mitigate the economic effect of such instrument, contract or right (a “*Derivative Instrument*”) directly or indirectly owned beneficially by such stockholder or other Proposing Person, and any other direct or indirect opportunity to profit or share in

4

any profit derived from any increase or decrease in the value of shares of the corporation; (2) a description of any proxy, contract, arrangement, understanding, or relationship pursuant to which such stockholder or other Proposing Person has a right to vote any shares of any security of the corporation; (3) a description of any agreement, arrangement, understanding, relationship or otherwise, including any repurchase or similar so-called “stock borrowing” agreement or arrangement, engaged in, directly or indirectly, by such stockholder or other Proposing Person, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of any class or series of the shares of the corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such stockholder or other Proposing Person with respect to any class or series of the shares of the corporation, or which provides, directly or indirectly, the opportunity to profit or share in any profit derived from any decrease in the price or value of any class or series of the shares of the corporation (“Short Interests”); (4) a description of any rights to dividends on the shares of the corporation owned beneficially by such stockholder or other Proposing Person that are separated or separable from the underlying shares of the corporation; (5) a description of any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder or other Proposing Person is a general partner or, directly or indirectly, beneficially owns an interest in a general partner; (6) a description of any performance-related fees (other than an asset-based fee) to which such stockholder or other Proposing Person is entitled based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including, without limitation, any such interests held by members of such stockholder’s or other Proposing Person’s immediate family sharing the same household; (7) a description of any significant equity interests or any Derivative Instruments or Short Interests in any principal competitor of the corporation held by such stockholder or other Proposing Person; and (8) a description of any direct or indirect interest of such stockholder or other Proposing Person in any contract with the corporation, any affiliate of the corporation or any principal competitor of the corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), and (F) any other information relating to such stockholder or other Proposing Person, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), and the rules and regulations promulgated thereunder. The terms “associate” and “beneficially owned” for purposes hereof shall have the meanings set forth in Section 2.15(e) of these Bylaws.

(c) Unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting of stockholders to present the proposed business, such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the corporation. For purposes of this section, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or authorized by a writing executed by such stockholder (or a reliable reproduction or electronic transmission of the writing) delivered to the corporation prior to the making of such proposal at such meeting by such stockholder stating that such person is authorized to act for such stockholder as proxy at the meeting of stockholders.

(d) Notwithstanding the foregoing provisions of this Section 1.10, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.10; provided however, that any references in this Section 1.10 to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit any requirements applicable to proposals as to any business to be considered pursuant to this Section 1.10. Nothing in this Section 1.10 shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the corporation’s proxy statement pursuant to Rule

5

14a-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock if and to the extent provided for under law, the Certificate of Incorporation or these Bylaws.

(e) Notwithstanding any provisions to the contrary, the notice requirements set forth in subsections (a) and (b) above shall be deemed satisfied by a stockholder if the stockholder has notified the corporation of the stockholder’s intention to present a proposal at an annual meeting in compliance with applicable rules and regulations promulgated under the Exchange Act and such stockholder’s proposal has been included in a proxy statement that has been prepared by the corporation to solicit proxies for such annual meeting.

1.11 Conduct of Business. At every meeting of the stockholders, the Chairman of the Board, or, in his absence, the Chief Executive Officer, or, in his absence, such other person as may be appointed by the Board of Directors, shall act as chairman. The Secretary of the corporation or a person designated by the chairman of the meeting shall act as secretary of the meeting. Unless otherwise approved by the chairman of the meeting, attendance at the stockholders’ meeting is restricted to stockholders of record, persons authorized in accordance with Section 1.8 of these Bylaws to act by proxy, and officers of the corporation.

The chairman of the meeting shall call the meeting to order, establish the agenda, and conduct the business of the meeting in accordance therewith or, at the chairman’s discretion, the business of the meeting may be conducted otherwise in accordance with the wishes of the stockholders in attendance. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

The chairman shall also conduct the meeting in an orderly manner, rule on the precedence of, and procedure on, motions and other procedural matters, and exercise discretion with respect to such procedural matters with fairness and good faith toward all those entitled to take part. Without limiting the foregoing, the chairman may (a) restrict attendance at any time to bona fide stockholders of record and their proxies and other persons in attendance at the invitation of the presiding officer or Board of Directors, (b) restrict use of audio or video recording devices at the meeting, and (c) impose reasonable limits on the amount of time taken up at the meeting on discussion in general or on remarks by any one stockholder. Should any person in attendance become unruly or obstruct the meeting proceedings, the chairman shall have the power to have such person removed from the meeting. Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at a meeting except in accordance with the procedures set forth in Section 1.10, this Section 1.11 and Section 2.15. The chairman of the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the provisions of Section 1.10, this Section 1.11 and Section 2.15, and if he should so determine that any proposed nomination or business is not in compliance with such sections, he shall so declare to the meeting that such defective nomination or proposal shall be disregarded.

1.12 Stockholder Action Without Meeting. Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

1.13 Meetings by Remote Communication. If authorized by the Board of Directors, and subject to such guidelines and procedures as the Board may adopt, stockholders and proxy holders not physically present at a meeting of stockholders may, by means of remote communication, participate in the meeting and be deemed present in person and vote at the meeting, whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (a) the corporation shall

implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxy holder, (b) the corporation shall implement reasonable measures to provide such stockholders and proxy holders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (c) if any stockholder or proxy holder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.

ARTICLE II BOARD OF DIRECTORS

2.1 General Powers. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the corporation except as otherwise provided by law or the Certificate of Incorporation. In the event of a vacancy on the Board of Directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full Board until the vacancy is filled.

2.2 Number and Term of Office. Subject to the rights of the holders of any series of preferred stock to elect directors under specified circumstances, the number of directors shall initially be five (5) and, thereafter, shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption). Effective upon the date of the closing of the corporation's initial public offering of its common stock (the "Effective Date"), the directors, other than those who may be elected by the holders of any series of preferred stock under specified circumstances, shall be divided into three classes, with the term of office of the first class to expire at the first annual meeting of stockholders held after the Effective Date; the term of office of the second class to expire at the second annual meeting of stockholders held after the Effective Date; the term of office of the third class to expire at the third annual meeting of stockholders held after the Effective Date; and thereafter for each such term to expire at each third succeeding annual meeting of stockholders after such election. All directors shall hold office until the expiration of the term for which elected and until their respective successors are elected, except in the case of the death, resignation or removal of any director. At each annual meeting of stockholders commencing with the first annual meeting held after the Effective Date, (i) the successors to the class of directors whose term expires in that year shall be elected to hold office for a term of three years to succeed those whose term expires so that the term of office of one class of directors shall expire in each year, with each director to hold office until his successor shall have been duly elected and qualified, and (ii) if authorized by a resolution of the Board of Directors, directors may be elected to fill any vacancy on the Board of Directors, regardless of how such vacancy shall have been created.

2.3 Vacancies and Newly Created Directorships. Subject to the rights of the holders of any series of preferred stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification or other cause (including removal from office by a vote of the stockholders) may be filled only by a majority vote of the directors then in office, though less than a quorum, or by the sole remaining director, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders at which the term of office of the class to which they have been elected expires or until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors shall shorten the term of any incumbent director.

2.4 Resignation. Any director may resign by delivering notice in writing or by electronic transmission to the President, Chief Executive Officer, Chairman of the Board or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

2.5 Removal. Subject to the rights of the holders of any series of preferred stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, but only for cause, by the affirmative vote of the holders of sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class. Vacancies in the Board of Directors resulting from such removal may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director. Directors so chosen shall hold office until the next annual meeting of stockholders at which the term of office of the class to which they have been elected expires.

2.6 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place, either within or without the State of Delaware, as shall be determined from time to time by the Board of Directors; provided that any director who is absent when such a determination is made shall be given notice of the determination. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

2.7 Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the Chief Executive Officer, the President or two or more directors and may be held at any time and place, within or without the State of Delaware.

2.8 Notice of Special Meetings. Notice of any special meeting of directors shall be given to each director by whom it is not waived by the Secretary or by the officer or one of the directors calling the meeting. Notice shall be duly given to each director by (a) giving notice to such director in person or by telephone, electronic transmission or voice message system at least 24 hours in advance of the meeting, (b) sending a facsimile to his last known facsimile number, or delivering written notice by hand to his last known business or home address, at least 24 hours in advance of the meeting, or (c) mailing written notice to his last known business or home address at least three days in advance of the meeting. A notice or waiver of notice of a meeting of the Board of Directors need not specify the purposes of the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

2.9 Participation in Meetings by Telephone Conference Calls or Other Methods of Communication. Directors or any members of any committee designated by the directors may participate in a meeting of the Board of Directors or such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation by such means shall constitute presence in person at such meeting.

2.10 Quorum. A majority of the total number of authorized directors shall constitute a quorum at any meeting of the Board of Directors. In the absence of a quorum at any such meeting, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or at a meeting of a committee which authorizes a particular contract or transaction.

8

2.11 Action at Meeting. At any meeting of the Board of Directors at which a quorum is present, the vote of a majority of those present shall be sufficient to take any action, unless a different vote is specified by law, the Certificate of Incorporation or these Bylaws.

2.12 Action by Written Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee of the Board of Directors may be taken without a meeting if all members of the Board or committee, as the case may be, consent to the action in writing or by electronic transmission, and the writings or electronic transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

2.13 Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation, with such lawfully delegated powers and duties as it therefor confers, to serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members of the committee present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to the provisions of the Delaware General Corporation Law, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it. Each such committee shall keep minutes and make such reports as the Board of Directors may from time to time request. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these Bylaws for the Board of Directors.

2.14 Compensation of Directors. Directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any director from serving the corporation or any of its parent or subsidiary corporations in any other capacity and receiving compensation for such service.

2.15 Nomination of Director Candidates.

(a) Subject to the rights of holders of any class or series of Preferred Stock then outstanding, nominations for the election of directors at an annual meeting may be made by (i) the Board of Directors or a duly authorized committee thereof or (ii) any stockholder of the corporation who is a stockholder of record at the time of giving the notice provided for in paragraphs (b) and (c) of this Section 2.15, who is entitled to vote at the meeting and who complies with the procedures set forth in this Section 2.15.

(b) All nominations by stockholders must be made pursuant to timely notice given in writing to the Secretary of the corporation. To be timely, a stockholder's nomination for a director to be elected at an annual meeting must be received at the corporation's principal executive offices not later than 90 days nor earlier than 120 days prior to the first anniversary of the date of the preceding year's annual meeting as first specified in the corporation's notice of meeting (without regard to any postponements or adjournments of such meeting after such notice was first sent), provided, however, that if no annual meeting was held in the previous year or the date of the annual meeting is advanced by more than thirty (30) days or delayed (other than as a result of adjournment) by more than thirty (30) days from the first anniversary of the previous year's annual meeting, notice by the stockholder to be timely must be

9

received not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the date on which public announcement of the date of such meeting is first made. Each such notice shall set forth (i) as to the stockholder and the beneficial owner, if any, on whose behalf the nomination is being made, and any of their respective affiliates or associates or others acting in concert therewith (each, a "**Nominating Person**"), the name and address, as they appear on the corporation's books, of the stockholder who intends to make the nomination and of any other Nominating Person, (ii) the class or series and number of shares of the corporation which are owned beneficially and of record by the stockholder and any other Nominating Person as of the date of the notice, and a representation that the stockholder will notify the corporation in writing within five (5) business days after the record date for voting at the meeting of the class or series and number of shares of the corporation owned beneficially and of record by the stockholder and any other Nominating Person as of the record date for voting at the meeting, (iii) a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the nominee specified in the notice, (iv) the following information regarding the ownership interests of the stockholder and any other Nominating Person, which shall be supplemented in writing by the stockholder not later than ten (10) days after the record date for notice of the meeting to disclose such interests as of such record date: (A) a description of any Derivative Instrument directly or indirectly owned beneficially by such stockholder or other Nominating Person, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation; (B) a description of any proxy, contract, arrangement, understanding, or relationship pursuant to which such stockholder or other Nominating Person has a right to vote any shares of any security of the corporation; (C) a description of any Short Interests in any securities of the corporation directly or indirectly owned beneficially by such stockholder or other Nominating Person; (D) a description of any rights to dividends on the shares of the corporation owned beneficially by such stockholder or other Nominating Person that are separated or separable from the underlying shares of the corporation; (E) a description of any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder or other Nominating Person is a general partner or, directly or indirectly, beneficially owns an interest in a general partner; (F) a description of any performance-related fees (other than an asset-based fee) to which such stockholder or other Nominating Person is entitled based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including, without limitation, any such interests held by members of such stockholder's or other Nominating Person's immediate family sharing the same household; (G) a description of any significant equity interests or any Derivative Instruments or Short Interests in any principal competitor of the corporation held by such stockholder or other Nominating Person; and (H) a description of any direct or indirect

interest of such stockholder or other Nominating Person in any contract with the corporation, any affiliate of the corporation or any principal competitor of the corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), (v) a description of all arrangements or understandings between the stockholder or other Nominating Person and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder, (vi) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder and any other Nominating Person, on the one hand, and each nominee, and his respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the stockholder and any Nominating Person, if any, or any affiliate or associate thereof or person acting in concert therewith, were the “registrant” for purposes of such rule and the nominee were a director or executive officer of such registrant, (vii) such other information regarding each nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, had the nominee been nominated, or intended to be nominated, by the Board of Directors, and (viii) the signed consent of each nominee to serve as a director of the corporation if so

elected. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder’s notice as described above. Notwithstanding the second sentence of this Section 2.15(b), in the event that the number of directors to be elected at an annual meeting is increased and there is no public announcement by the corporation naming the nominees for the additional directorships at least 100 days prior to the one-year anniversary of the date of the preceding year’s annual meeting as first specified in the corporation’s notice of meeting (without regard to any postponements or adjournments of such meeting after such notice was first sent), a stockholder’s notice required by this Section 2.15(b) shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(c) Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation’s notice of meeting (i) by or at the direction of the Board of Directors or a committee thereof or (ii) by any stockholder who complies with the notice procedures set forth in this Section 2.15 and who is a stockholder of record at the time such notice is delivered to the Secretary of the corporation. In the event the corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as are specified in the corporation’s notice of meeting, if the stockholder’s notice as required by Section 2.15(a) is delivered to the Secretary at the principal executive offices of the corporation not earlier than ninety (90) days prior to such special meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder’s notice as described above.

(d) For purposes of these Bylaws, “**public announcement**” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed or furnished by the corporation with the SEC pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(e) Only those persons who are nominated in accordance with the procedures set forth in this section shall be eligible for election as directors at any meeting of stockholders. The Chairman of the Board of Directors or Secretary may, if the facts warrant, determine that a notice received by the corporation relating to a nomination proposed to be made does not satisfy the requirements of this Section 2.15 (including if the stockholder does not provide the updated information required under Section 2.15(b) to the corporation within five (5) business days following the record date for the meeting), and if it be so determined, shall so declare and any such nomination shall not be introduced at such meeting of stockholders, notwithstanding that proxies in respect of such vote may have been received. The chairman of the meeting shall have the power and duty to determine whether a nomination brought before the meeting was made in accordance with the procedures set forth in this section, and, if any nomination is not in compliance with this section (including if the stockholder does not provide the updated information required under Section 2.15(b) to the corporation within five (5) business days following the record date for the meeting), to declare that such defective nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received. Unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting or a special meeting of stockholders of the corporation to present a nomination, such nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the corporation. For purposes of this Section 2.15, to be considered a

qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or authorized by a writing executed by such stockholder (or a reliable reproduction or electronic transmission of the writing) delivered to the corporation prior to the making of such nomination at such meeting by such stockholder stating that such person is authorized to act for such stockholder as proxy at the meeting of stockholders.

(f) Notwithstanding the foregoing provisions of this Section 2.15, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.15; provided however, that any references in this Section 2.15 to the Exchange Act or the rules promulgated thereunder are not intended to and shall not limit any requirements applicable to nominations to be considered pursuant to this Section 2.15. Nothing in this Section 2.15 shall be deemed to affect any rights of the holders of any series of preferred stock if and to the extent provided for under law, the Certificate of Incorporation or these Bylaws.

ARTICLE III OFFICERS

3.1 **Enumeration.** The officers of the corporation shall consist of a Chief Executive Officer, a President, a Secretary, a Treasurer, a Chief Financial Officer and such other officers with such other titles as the Board of Directors shall determine, including, at the discretion of the Board of Directors, a Chairman of the Board and one or more Vice Presidents and Assistant Secretaries. The Board of Directors may appoint such other officers as it may deem appropriate.

3.2 **Election.** Officers shall be elected annually by the Board of Directors at its first meeting following the annual meeting of stockholders. Officers may be appointed by the Board of Directors at any other meeting.

3.3 **Qualification.** No officer need be a stockholder. Any two or more offices may be held by the same person.

3.4 Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, each officer shall hold office until his successor is elected and qualified, unless a different term is specified in the vote appointing the officer, or until his earlier death, resignation or removal.

3.5 Resignation and Removal. Any officer may resign by delivering his written resignation to the corporation at its principal office or to the President or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event. Any officer elected by the Board of Directors may be removed at any time, with or without cause, by the Board of Directors.

3.6 Chairman of the Board. The Board of Directors may appoint a Chairman of the Board. If the Board of Directors appoints a Chairman of the Board, he shall perform such duties and possess such powers as are assigned to the Chairman by the Board of Directors and these Bylaws. Unless otherwise provided by the Board of Directors, he shall preside at all meetings of the Board of Directors.

3.7 Chief Executive Officer. The Chief Executive Officer of the corporation shall, subject to the direction of the Board of Directors, have general supervision, direction and control of the business and the officers of the corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a Chairman of the Board, at all meetings of the Board of Directors. He shall have the general powers and duties of management usually vested in the chief executive officer of a corporation, including general supervision, direction and control of the business and supervision of other officers of

12

the corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

3.8 President. Subject to the direction of the Board of Directors and such supervisory powers as may be given by these Bylaws or the Board of Directors to the Chairman of the Board or the Chief Executive Officer, if such titles be held by other officers, the President shall have general supervision, direction and control of the business and supervision of other officers of the corporation. Unless otherwise designated by the Board of Directors, the President shall be the Chief Executive Officer of the corporation. The President shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws. He shall have power to sign stock certificates, contracts and other instruments of the corporation which are authorized and shall have general supervision and direction of all of the other officers, employees and agents of the corporation, other than the Chairman of the Board and the Chief Executive Officer.

3.9 Vice Presidents. Any Vice President shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe. In the event of the absence, inability or refusal to act of the President, the Vice President (or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors) shall perform the duties of the President and when so performing shall have all the powers of and be subject to all the restrictions upon the President. The Board of Directors may assign to any Vice President the title of Executive Vice President, Senior Vice President or any other title selected by the Board of Directors.

3.10 Secretary and Assistant Secretaries. The Secretary shall perform such duties and shall have such powers as the Board of Directors or the President may from time to time prescribe. In addition, the Secretary shall perform such duties and have such powers as are set forth in these Bylaws and as are incident to the office of the Secretary, including, without limitation, the duty and power to give notices of all meetings of stockholders and special meetings of the Board of Directors, to keep a record of the proceedings of all meetings of stockholders and the Board of Directors, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be custodian of corporate records and the corporate seal and to affix and attest to the same on documents.

Any Assistant Secretary shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer, the President or the Secretary may from time to time prescribe. In the event of the absence, inability or refusal to act of the Secretary, the Assistant Secretary (or if there shall be more than one, the Assistant Secretaries in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Secretary.

In the absence of the Secretary or any Assistant Secretary at any meeting of stockholders or directors, the person presiding at the meeting shall designate a temporary secretary to keep a record of the meeting.

3.11 Treasurer. The Treasurer shall perform such duties and have such powers as are incident to the office of treasurer, including without limitation, the duty and power to keep and be responsible for all funds and securities of the corporation, to maintain the financial records of the corporation, to deposit funds of the corporation in depositories as authorized, to disburse such funds as authorized, to make proper accounts of such funds, and to render as required by the Board of Directors accounts of all such transactions and of the financial condition of the corporation.

3.12 Chief Financial Officer. The Chief Financial Officer shall perform such duties and shall have such powers as may from time to time be assigned to the Chief Financial Officer by the Board of

13

Directors, the Chief Executive Officer or the President. Unless otherwise designated by the Board of Directors, the Chief Financial Officer shall be the Treasurer of the corporation.

3.13 Salaries. Officers of the corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors.

3.14 Delegation of Authority. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

ARTICLE IV CAPITAL STOCK

4.1 Issuance of Stock. Subject to the provisions of the Certificate of Incorporation, the whole or any part of any unissued balance of the authorized capital stock of the corporation or the whole or any part of any unissued balance of the authorized capital stock of the corporation held in its treasury may be issued, sold, transferred or otherwise disposed of by vote of the Board of Directors in such manner, for such consideration and on such terms as the Board of Directors may determine.

4.2 Stock Certificates. The shares of stock of the corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any class or series of stock of the corporation shall be uncertificated shares; provided, however, that no such resolution shall apply to shares represented by a certificate until such certificate is surrendered to the corporation. Every holder of stock of the corporation represented by certificates, and, upon written request to the corporation's transfer agent or registrar, any holder of uncertificated shares, shall be entitled to have a certificate, in such form as may be prescribed by law and by the Board of Directors, certifying the number and class of shares of stock owned by such stockholder in the corporation. Each such certificate shall be signed by, or in the name of the corporation by, the Chairman or Vice Chairman, if any, of the Board of Directors, or the President or a Vice President, and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation. Any or all of the signatures on the certificate may be a facsimile.

Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the Certificate of Incorporation, the Bylaws, applicable securities laws or any agreement among any number of stockholders or among such holders and the corporation shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restriction.

4.3 Transfers. Except as otherwise established by rules and regulations adopted by the Board of Directors, and subject to applicable law, shares of stock may be transferred on the books of the corporation: (i) in the case of shares represented by a certificate, by the surrender to the corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or authenticity of signature as the corporation or its transfer agent may reasonably require; and (ii) in the case of uncertificated shares, upon the receipt of proper transfer instructions from the registered owner thereof. Except as may be otherwise required by law, the Certificate of Incorporation or the Bylaws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock until the shares have been transferred on the books of the corporation in accordance with the requirements of these Bylaws.

14

4.4 Lost, Stolen or Destroyed Certificates. The corporation may issue a new certificate in place of any previously issued certificate alleged to have been lost, stolen, or destroyed, or it may issue uncertificated shares if the shares represented by such certificate have been designated as uncertificated shares in accordance with Section 4.2, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the corporation or any transfer agent or registrar.

4.5 Record Dates. The Board of Directors may fix in advance a record date for the determination of the stockholders entitled to vote at any meeting of stockholders. Such record date shall not precede the date on which the resolution fixing the record date is adopted and shall not be more than 60 nor less than 10 days before the date of such meeting.

If no record date is fixed by the Board of Directors, the record date for determining the stockholders entitled to notice of or to vote at a meeting of stockholders shall be the close of business on the day before the date on which notice is given, or, if notice is waived, the close of business on the day before the date on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for the determination of stockholders entitled to vote in accordance with the foregoing provisions.

The Board of Directors may fix in advance a record date (a) for the determination of stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights in respect of any change, concession or exchange of stock, or (b) for the purpose of any other lawful action. Any such record date shall not precede the date on which the resolution fixing the record date is adopted and shall not be more than 60 days prior to the action to which such record date relates. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting when no prior action by the Board of Directors is necessary shall be the date on which the first written consent is expressed. The record date for determining stockholders for any other purpose shall be the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

ARTICLE V GENERAL PROVISIONS

5.1 Fiscal Year. The fiscal year of the corporation shall be as fixed by the Board of Directors.

5.2 Waiver of Notice. Whenever any notice whatsoever is required to be given by law, by the Certificate of Incorporation or by these Bylaws, a waiver of such notice either in writing signed by the person entitled to such notice or such person's duly authorized attorney, or by electronic transmission or any other method permitted under the Delaware General Corporation Law, whether before, at or after the time stated in such waiver, or the appearance of such person or persons at such meeting in person or by proxy, shall be deemed equivalent to such notice. Neither the business nor the purpose of any meeting need be specified in such a waiver. Attendance at any meeting shall constitute waiver of notice except attendance for the sole purpose of objecting to the timeliness or manner of notice.

15

5.3 Actions with Respect to Securities of Other Corporations. Except as the Board of Directors may otherwise designate, the Chief Executive Officer or President or any officer of the corporation authorized by the Chief Executive Officer or President shall have the power to vote and otherwise act on behalf of the corporation, in person or by proxy, and may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact to this corporation (with or without power of substitution) at any meeting of stockholders or shareholders (or with respect to any action of stockholders) of any other corporation or organization, the securities of which may be held by this corporation and otherwise to exercise any and all rights and powers that this corporation may possess by reason of this corporation's ownership of securities in such other corporation or other organization.

5.4 Evidence of Authority. A certificate by the Secretary, or an Assistant Secretary, or a temporary Secretary, as to any action taken by the stockholders, directors, a committee or any officer or representative of the corporation shall as to all persons who rely on the certificate in good faith be conclusive

evidence of such action.

5.5 Certificate of Incorporation. All references in these Bylaws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the corporation, as amended and in effect from time to time.

5.6 Severability. Any determination that any provision of these Bylaws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these Bylaws.

5.7 Pronouns. All pronouns used in these Bylaws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

5.8 Notices. Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent of the corporation shall be in writing and may in every instance be effectively given by hand delivery to the recipient thereof, by depositing such notice in the mails, postage paid, or by sending such notice by commercial courier service, or by facsimile or other electronic transmission, provided that notice to stockholders by electronic transmission shall be given in the manner provided in Section 232 of the Delaware General Corporation Law. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his last known address as the same appears on the books of the corporation. The time when such notice shall be deemed to be given shall be the time such notice is received by such stockholder, director, officer, employee or agent, or by any person accepting such notice on behalf of such person, if delivered by hand, facsimile, other electronic transmission or commercial courier service, or the time such notice is dispatched, if delivered through the mails. Without limiting the manner by which notice otherwise may be given effectively, notice to any stockholder shall be deemed given: (a) if by facsimile, when directed to a number at which the stockholder has consented to receive notice; (b) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (c) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (i) such posting and (ii) the giving of such separate notice; (d) if by any other form of electronic transmission, when directed to the stockholder; and (e) if by mail, when deposited in the mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation.

5.9 Reliance Upon Books, Reports and Records. Each director, each member of any committee designated by the Board of Directors, and each officer of the corporation shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or other records of the corporation as provided by law, including reports made to the corporation by any of its officers, by an independent certified public accountant, or by an appraiser selected with reasonable care.

16

5.10 Time Periods. In applying any provision of these Bylaws which require that an act be done or not done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

5.11 Facsimile Signatures. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these Bylaws, facsimile signatures of any officer or officers of the corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

ARTICLE VI AMENDMENTS

6.1 By the Board of Directors. Except as otherwise set forth in these Bylaws, these Bylaws may be altered, amended or repealed or new Bylaws may be adopted by the affirmative vote of a majority of the directors present at any regular or special meeting of the Board of Directors at which a quorum is present.

6.2 By the Stockholders. Except as otherwise set forth in these Bylaws, these Bylaws may be altered, amended or repealed or new Bylaws may be adopted by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the shares of capital stock of the corporation issued and outstanding and entitled to vote generally in any election of directors, voting together as a single class. Such vote may be held at any annual meeting of stockholders, or at any special meeting of stockholders provided that notice of such alteration, amendment, repeal or adoption of new Bylaws shall have been stated in the notice of such special meeting.

ARTICLE VII INDEMNIFICATION OF DIRECTORS AND OFFICERS

7.1 Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative ("**proceeding**"), by reason of the fact that he or a person of whom he is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director or officer of another corporation, or as a controlling person of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director or officer, or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than such law permitted the corporation to provide prior to such amendment) against all expenses, liability and loss reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of his heirs, executors and administrators; provided, that except as provided in Section 7.2 of this Article VII, the corporation shall indemnify any such person seeking indemnity in connection with a proceeding (or part thereof) initiated by such person only if (a) such indemnification is expressly required to be made by law, (b) the proceeding (or part thereof) was authorized by the Board of Directors, (c) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the Delaware General Corporation Law, or (d) the proceeding (or part thereof) is brought to establish or enforce a right to indemnification or advancement under an indemnity agreement or any other statute or law or otherwise as required under Section 145 of the Delaware General Corporation Law. The rights hereunder shall be contract rights and shall include the right to be paid expenses incurred in defending

17

any such proceeding in advance of its final disposition; provided, that the payment of such expenses incurred by a director or officer of the corporation in his capacity as a director or officer (and not in any other capacity in which service was or is tendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding, shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it should be determined ultimately by final judicial decision from which there is no further right to appeal that such director or officer is not entitled to be indemnified under this section or otherwise.

7.2 Right of Claimant to Bring Suit. If a claim under Section 7.1 is not paid in full by the corporation within 60 days after a written claim has been received by the corporation, or 20 days in the case of a claim for advancement of expenses, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if such suit is not frivolous or brought in bad faith, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to this corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the corporation to indemnify the claimant for the amount claimed. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct. In any suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the corporation shall be entitled to recover such expenses upon a final judicial decision from which there is no further right to appeal that the indemnitee has not met any applicable standard for indemnification set forth in the Delaware General Corporation Law. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, shall be on the corporation.

7.3 Indemnification of Employees and Agents. The corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to the advancement of related expenses, to any employee or agent of the corporation to the fullest extent of the provisions of this Article VII with respect to the indemnification of and advancement of expenses to directors and officers of the corporation.

7.4 Non-Exclusivity of Rights. The rights conferred on any person in this Article VII shall not be exclusive of any other right which such persons may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

7.5 Indemnification Contracts. The Board of Directors is authorized to enter into a contract with any director, officer, employee or agent of the corporation, or any person serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, providing for indemnification rights equivalent to or, if the Board of Directors so determines, greater than, those provided for in this Article VII.

18

7.6 Insurance. The corporation shall maintain insurance to the extent reasonably available, at its expense, to protect itself and any such director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

7.7 Effect of Amendment. Any amendment, repeal or modification of any provision of this Article VII shall not adversely affect any right or protection of an indemnitee or his successor in respect of any act or omission occurring prior to such amendment, repeal or modification.

19

PAYLOCITY HOLDING CORPORATION
2014 EQUITY INCENTIVE PLAN

TABLE OF CONTENTS

		Page
1.	Establishment, Purpose and Term of Plan	1
1.1	Establishment	1
1.2	Purpose	1
1.3	Term of Plan	1
2.	Definitions and Construction	1
2.1	Definitions	1
2.2	Construction	8
3.	Administration	9
3.1	Administration by the Committee	9
3.2	Authority of Officers	9
3.3	Administration with Respect to Insiders	9
3.4	Committee Complying with Section 162(m)	9
3.5	Powers of the Committee	9
3.6	Option or SAR Repricing	10
3.7	Indemnification	11
4.	Shares Subject to Plan	11
4.1	Maximum Number of Shares Issuable	11
4.2	Annual Increase in Maximum Number of Shares Issuable	11
4.3	Share Counting	11
4.4	Adjustments for Changes in Capital Structure	12
4.5	Assumption or Substitution of Awards	12
5.	Eligibility, Participation and Award Limitations	12
5.1	Persons Eligible for Awards	12
5.2	Participation in the Plan	12
5.3	Incentive Stock Option Limitations	13
5.4	Nonemployee Director Award Limit	13
6.	Stock Options	13
6.1	Exercise Price	14
6.2	Exercisability and Term of Options	14
6.3	Payment of Exercise Price	14

TABLE OF CONTENTS
(continued)

		Page
6.4	Effect of Termination of Service	15
6.5	Transferability of Options	16
7.	Stock Appreciation Rights	17
7.1	Types of SARs Authorized	17
7.2	Exercise Price	17
7.3	Exercisability and Term of SARs	17
7.4	Exercise of SARs	18
7.5	Deemed Exercise of SARs	18
7.6	Effect of Termination of Service	18
7.7	Transferability of SARs	18
8.	Restricted Stock Awards	18
8.1	Types of Restricted Stock Awards Authorized	19
8.2	Purchase Price	19
8.3	Purchase Period	19
8.4	Payment of Purchase Price	19
8.5	Vesting and Restrictions on Transfer	19
8.6	Voting Rights; Dividends and Distributions	20
8.7	Effect of Termination of Service	20
8.8	Nontransferability of Restricted Stock Award Rights	20
9.	Restricted Stock Units	21
9.1	Grant of Restricted Stock Unit Awards	21
9.2	Purchase Price	21
9.3	Vesting	21
9.4	Voting Rights, Dividend Equivalent Rights and Distributions	21
9.5	Effect of Termination of Service	22
9.6	Settlement of Restricted Stock Unit Awards	22
9.7	Nontransferability of Restricted Stock Unit Awards	22
10.	Performance Awards	23
10.1	Types of Performance Awards Authorized	23
10.2	Initial Value of Performance Shares and Performance Units	23

TABLE OF CONTENTS
(continued)

		Page
10.3	Establishment of Performance Period, Performance Goals and Performance Award Formula	23
10.4	Measurement of Performance Goals	23
10.5	Settlement of Performance Awards	25
10.6	Voting Rights; Dividend Equivalent Rights and Distributions	27

10.7	Effect of Termination of Service	27
10.8	Nontransferability of Performance Awards	28
11.	Cash-Based Awards and Other Stock-Based Awards	28
11.1	Grant of Cash-Based Awards	28
11.2	Grant of Other Stock-Based Awards	28
11.3	Value of Cash-Based and Other Stock-Based Awards	28
11.4	Payment or Settlement of Cash-Based Awards and Other Stock-Based Awards	29
11.5	Voting Rights; Dividend Equivalent Rights and Distributions	29
11.6	Effect of Termination of Service	29
11.7	Nontransferability of Cash-Based Awards and Other Stock-Based Awards	30
12.	Standard Forms of Award Agreement	30
12.1	Award Agreements	30
12.2	Authority to Vary Terms	30
13.	Change in Control	30
13.1	Effect of Change in Control on Awards	30
13.2	Effect of Change in Control on Nonemployee Director Awards	31
13.3	Federal Excise Tax Under Section 4999 of the Code	31
14.	Compliance with Securities Law	32
15.	Compliance with Section 409A	32
15.1	Awards Subject to Section 409A	32
15.2	Deferral and/or Distribution Elections	33
15.3	Subsequent Elections	33
15.4	Payment of Section 409A Deferred Compensation	34
16.	Tax Withholding	36
16.1	Tax Withholding in General	36

**TABLE OF CONTENTS
(continued)**

	<u>Page</u>	
16.2	Withholding in or Directed Sale of Shares	36
17.	Amendment, Suspension or Termination of Plan	37
18.	Miscellaneous Provisions	37
18.1	Repurchase Rights	37
18.2	Forfeiture Events	37
18.3	Provision of Information	38
18.4	Rights as Employee, Consultant or Director	38
18.5	Rights as a Stockholder	38
18.6	Delivery of Title to Shares	38
18.7	Fractional Shares	38

18.8	Retirement and Welfare Plans	38
18.9	Beneficiary Designation	39
18.10	Severability	39
18.11	No Constraint on Corporate Action	39
18.12	Unfunded Obligation	39
18.13	Choice of Law	39

**Paylocity Holding Corporation
2014 Equity Incentive Plan**

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 **Establishment.** The Paylocity Holding Corporation 2014 Equity Incentive Plan (the “*Plan*”) is hereby established effective as of February 10, 2014, the date of its approval by the stockholders of the Company (the “*Effective Date*”).

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards and Other Stock-Based Awards.

1.3 **Term of Plan.** The Plan shall continue in effect until its termination by the Committee; provided, however, that all Awards shall be granted, if at all, within ten (10) years from the Effective Date.

2. DEFINITIONS AND CONSTRUCTION.

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) “**Affiliate**” means (i) a parent entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) a subsidiary entity, other than a Subsidiary Corporation, that is controlled by the Company directly or indirectly through one or more intermediary entities. For this purpose, the terms “parent,” “subsidiary,” “control” and “controlled by” shall have the meanings assigned such terms for the purposes of registration of securities on Form S-8 under the Securities Act.

(b) “**Award**” means any Option, Stock Appreciation Right, Restricted Stock Purchase Right, Restricted Stock Bonus, Restricted Stock Unit, Performance Share, Performance Unit, Cash-Based Award or Other Stock-Based Award granted under the Plan.

(c) “**Award Agreement**” means a written or electronic agreement between the Company and a Participant setting forth the terms, conditions and restrictions applicable to an Award.

(d) “**Board**” means the Board of Directors of the Company.

(e) “**Cash-Based Award**” means an Award denominated in cash and granted pursuant to Section 11.

(f) “**Cashless Exercise**” means a Cashless Exercise as defined in Section 6.3(b)(i).

(g) “**Cause**” means, unless such term or an equivalent term is otherwise defined by the applicable Award Agreement or other written agreement between a Participant and a Participating Company applicable to an Award, any of the following: (i) the Participant’s theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any Participating Company documents or records; (ii) the Participant’s material failure to abide by a Participating Company’s code of conduct or other policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct); (iii) the Participant’s unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of a Participating Company (including, without limitation, the Participant’s improper use or disclosure of a Participating Company’s confidential or proprietary information); (iv) any intentional act by the Participant which has a material detrimental effect on a Participating Company’s reputation or business; (v) the Participant’s repeated failure to perform any reasonable assigned duties after written notice from a Participating Company of, and a reasonable opportunity to cure, such failure; (vi) any material breach by the Participant of any employment, service, non-disclosure, non-competition, non-solicitation or other similar agreement between the Participant and a Participating Company, which breach is not cured pursuant to the terms of such agreement; or (vii) the Participant’s conviction (including any plea of guilty or *nolo contendere*) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs the Participant’s ability to perform his or her duties with a Participating Company.

(h) “**Change in Control**” means, unless such term or an equivalent term is otherwise defined by the applicable Award Agreement or other written agreement between the Participant and a Participating Company applicable to an Award, the occurrence of any one or a combination of the following:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total Fair Market Value or total combined voting power of the Company’s then-outstanding securities entitled to vote generally in the election of Directors;

provided, however, that a Change in Control shall not be deemed to have occurred if such degree of beneficial ownership results from any of the following: (A) an acquisition by any person who on the Effective Date is the beneficial owner of more than fifty percent (50%) of such voting power, (B) any acquisition directly from the Company, including, without limitation, pursuant to or in connection with a public offering of securities, (C) any acquisition by the Company, (D) any acquisition by a trustee or other fiduciary under an employee benefit plan of a Participating Company or (E) any acquisition by an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or

(ii) an Ownership Change Event or series of related Ownership Change Events (collectively, a “**Transaction**”) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or

2

indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of Directors or, in the case of an Ownership Change Event described in Section 2.1(ee)(iii), the entity to which the assets of the Company were transferred (the “**Transferee**”), as the case may be; or

(iii) a date specified by the Committee following approval by the stockholders of a plan of complete liquidation or dissolution of the Company;

provided, however, that a Change in Control shall be deemed not to include a transaction described in subsections (i) or (ii) of this Section 2.1(h) in which a majority of the members of the board of directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of Incumbent Directors.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall determine whether multiple events described in subsections (i), (ii) and (iii) of this Section 2.1(h) are related and to be treated in the aggregate as a single Change in Control, and its determination shall be final, binding and conclusive.

(i) “**Code**” means the Internal Revenue Code of 1986, as amended, and any applicable regulations and administrative guidelines promulgated thereunder.

(j) “**Committee**” means the Compensation Committee and such other committee or subcommittee of the Board, if any, duly appointed to administer the Plan and having such powers in each instance as shall be specified by the Board. If, at any time, there is no committee of the Board then authorized or properly constituted to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

(k) “**Company**” means Paylocity Holding Corporation, a Delaware corporation, and any successor corporation thereto.

(l) “**Consultant**” means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on Form S-8 under the Securities Act.

(m) “**Covered Employee**” means, at any time the Plan is subject to Section 162(m), any Employee who is or may reasonably be expected to become a “covered employee” as defined in Section 162(m), or any successor statute, and who is designated, either as an individual Employee or a member of a class of Employees, by the Committee no later than the earlier of (i) the date that is ninety (90) days after the beginning of the Performance Period, or (ii) the date on which twenty-five percent (25%) of the Performance Period has elapsed, as a “Covered Employee” under this Plan for such applicable Performance Period.

3

(n) “**Director**” means a member of the Board.

(o) “**Disability**” means, unless such term or an equivalent term is otherwise defined by the applicable Award Agreement or other written agreement between the Participant and a Participating Company applicable to an Award, the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code.

(p) “**Dividend Equivalent Right**” means the right of a Participant, granted at the discretion of the Committee or as otherwise provided by the Plan, to receive a credit for the account of such Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

(q) “**Employee**” means any person treated as an employee (including an Officer or a Director who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a Director nor payment of a Director’s fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual’s employment or termination of employment, as the case may be. For purposes of an individual’s rights, if any, under the terms of the Plan as of the time of the Company’s determination of whether or not the individual is an Employee, all such determinations by the Company shall be final, binding and conclusive as to such rights, if any, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination as to such individual’s status as an Employee.

(r) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(s) “**Fair Market Value**” means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) Except as otherwise determined by the Committee, if, on such date, the Stock is listed or quoted on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock as quoted on the national or regional securities exchange or quotation system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or quotation system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded or quoted prior to the relevant date, or such other appropriate day as shall be determined by the Committee, in its discretion.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion, determine the Fair Market Value of a share of Stock on the basis of the opening,

4

closing, or average of the high and low sale prices of a share of Stock on such date or the preceding trading day, the actual sale price of a share of Stock received by a Participant, any other reasonable basis using actual transactions in the Stock as reported on a national or regional securities exchange or quotation system, or on any other basis consistent with the requirements of Section 409A. The Committee may also determine the Fair Market Value upon the average selling price of the Stock during a specified period that is within thirty (30) days before or thirty (30) days after such date, provided that, with respect to the grant of an Option or SAR, the commitment to grant such Award based on such valuation method must be irrevocable before the beginning of the specified period. The Committee may vary its method of determination of the Fair Market Value as provided in this Section for different purposes under the Plan to the extent consistent with the requirements of Section 409A.

(iii) If, on such date, the Stock is not listed or quoted on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock shall be as determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse, and in a manner consistent with the requirements of Section 409A.

(t) “**Full Value Award**” means any Award settled in Stock, other than (i) an Option, (ii) a Stock Appreciation Right, or (iii) a Restricted Stock Purchase Right or an Other Stock-Based Award under which the Company will receive monetary consideration equal to the Fair Market Value (determined on the effective date of grant) of the shares subject to such Award.

(u) “**Incentive Stock Option**” means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(v) “**Incumbent Director**” means a director who either (i) is a member of the Board as of the Effective Date or (ii) is elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but excluding a director who was elected or nominated in connection with an actual or threatened proxy contest relating to the election of directors of the Company).

(w) “**Insider**” means an Officer, a Director or other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(x) “**Net Exercise**” means a Net Exercise as defined in Section 6.3(b)(iii).

(y) “**Nonemployee Director**” means a Director who is not an Employee.

(z) “**Nonemployee Director Award**” means any Award granted to a Nonemployee Director.

5

(aa) “**Nonstatutory Stock Option**” means an Option not intended to be (as set forth in the Award Agreement) or which does not qualify as an incentive stock option within the meaning of Section 422(b) of the Code.

(bb) “**Officer**” means any person designated by the Board as an officer of the Company.

(cc) “**Option**” means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(dd) “**Other Stock-Based Award**” means an Award denominated in shares of Stock and granted pursuant to Section 11.

(ee) “**Ownership Change Event**” means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of Directors; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

(ff) “**Parent Corporation**” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(gg) “**Participant**” means any eligible person who has been granted one or more Awards.

(hh) “**Participating Company**” means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.

(ii) “**Participating Company Group**” means, at any point in time, the Company and all other entities collectively which are then Participating Companies.

(jj) “**Performance Award**” means an Award of Performance Shares or Performance Units.

(kk) “**Performance Award Formula**” means, for any Performance Award, a formula or table established by the Committee pursuant to Section 10.3 which provides the basis for computing the value of a Performance Award at one or more levels of attainment of the applicable

Performance Goal(s) measured as of the end of the applicable Performance Period.

(ll) “**Performance-Based Compensation**” means compensation under an Award that satisfies the requirements of Section 162(m) for certain performance-based compensation paid to Covered Employees.

(mm) “**Performance Goal**” means a performance goal established by the Committee pursuant to Section 10.3.

6

(nn) “**Performance Period**” means a period established by the Committee pursuant to Section 10.3 at the end of which one or more Performance Goals are to be measured.

(oo) “**Performance Share**” means a right granted to a Participant pursuant to Section 10 to receive a payment equal to the value of a Performance Share, as determined by the Committee, based upon attainment of applicable Performance Goal(s).

(pp) “**Performance Unit**” means a right granted to a Participant pursuant to Section 10 to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon attainment of applicable Performance Goal(s).

(qq) “**Predecessor Plan**” means the Company’s 2008 Equity Incentive Plan, as amended.

(rr) “**Restricted Stock Award**” means an Award of a Restricted Stock Bonus or a Restricted Stock Purchase Right.

(ss) “**Restricted Stock Bonus**” means Stock granted to a Participant pursuant to Section 8.

(tt) “**Restricted Stock Purchase Right**” means a right to purchase Stock granted to a Participant pursuant to Section 8.

(uu) “**Restricted Stock Unit**” means a right granted to a Participant pursuant to Section 9 to receive on a future date or occurrence of a future event a share of Stock or cash in lieu thereof, as determined by the Committee.

(vv) “**Rule 16b-3**” means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(ww) “**SAR**” or “**Stock Appreciation Right**” means a right granted to a Participant pursuant to Section 7 to receive payment, for each share of Stock subject to such Award, of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the Award over the exercise price thereof.

(xx) “**Section 162(m)**” means Section 162(m) of the Code.

(yy) “**Section 409A**” means Section 409A of the Code.

(zz) “**Section 409A Deferred Compensation**” means compensation provided pursuant to an Award that constitutes nonqualified deferred compensation within the meaning of Section 409A.

(aaa) “**Securities Act**” means the Securities Act of 1933, as amended.

(bbb) “**Service**” means a Participant’s employment or service with the Participating Company Group, whether as an Employee, a Director or a Consultant. Unless

7

otherwise provided by the Committee, a Participant’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service or a change in the Participating Company for which the Participant renders Service, provided that there is no interruption or termination of the Participant’s Service. Furthermore, a Participant’s Service shall not be deemed to have been interrupted or terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, unless otherwise provided by the Committee, if any such leave taken by a Participant exceeds ninety (90) days, then on the ninety-first (91st) day following the commencement of such leave the Participant’s Service shall be deemed to have terminated, unless the Participant’s right to return to Service is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, an unpaid leave of absence shall not be treated as Service for purposes of determining vesting under the Participant’s Award Agreement. A Participant’s Service shall be deemed to have terminated either upon an actual termination of Service or upon the business entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant’s Service has terminated and the effective date of and reason for such termination.

(ccc) “**Stock**” means the common stock of the Company, as adjusted from time to time in accordance with Section 4.4.

(ddd) “**Stock Tender Exercise**” means a Stock Tender Exercise as defined in Section 6.3(b)(ii).

(eee) “**Subsidiary Corporation**” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

(fff) “**Ten Percent Owner**” means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

(ggg) “**Trading Compliance Policy**” means the written policy of the Company pertaining to the purchase, sale, transfer or other disposition of the Company’s equity securities by Directors, Officers, Employees or other service providers who may possess material, nonpublic information regarding the Company or its securities.

(hhh) “**Vesting Conditions**” mean those conditions established in accordance with the Plan prior to the satisfaction of which an Award or shares subject to an Award remain subject to forfeiture or a repurchase option in favor of the Company exercisable for the Participant’s monetary purchase price, if any, for such shares upon the Participant’s termination of Service or failure of a performance condition to be satisfied.

2.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall

8

include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

3. **ADMINISTRATION.**

3.1 **Administration by the Committee.** The Plan shall be administered by the Committee. All questions of interpretation of the Plan, of any Award Agreement or of any other form of agreement or other document employed by the Company in the administration of the Plan or of any Award shall be determined by the Committee, and such determinations shall be final, binding and conclusive upon all persons having an interest in the Plan or such Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or Award Agreement or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest therein. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

3.2 **Authority of Officers.** Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election that is the responsibility of or that is allocated to the Company herein, provided that the Officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 **Administration with Respect to Insiders.** With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 **Committee Complying with Section 162(m).** If the Company is a “publicly held corporation” within the meaning of Section 162(m), the Board may establish a Committee of “outside directors” within the meaning of Section 162(m) to approve the grant of any Award intended to result in the payment of Performance-Based Compensation.

3.5 **Powers of the Committee.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee shall have the full and final power and authority, in its discretion:

- (a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock, units or monetary value to be subject to each Award;
- (b) to determine the type of Award granted;
- (c) to determine whether an Award granted to a Covered Employee shall be intended to result in Performance-Based Compensation;
- (d) to determine the Fair Market Value of shares of Stock or other property;

9

(e) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with any Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the Performance Measures, Performance Period, Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of expiration of any Award, (vii) the effect of any Participant’s termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

- (f) to determine whether an Award will be settled in shares of Stock, cash, other property or in any combination thereof;
- (g) to approve one or more forms of Award Agreement;
- (h) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(i) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant’s termination of Service;

(j) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws of, or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose residents may be granted Awards; and

(k) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with

the provisions of the Plan or applicable law.

3.6 **Option or SAR Repricing.** The Committee shall have the authority, without additional approval by the stockholders of the Company, to approve a program providing for either (a) the cancellation of outstanding Options or SARs having exercise prices per share greater than the then Fair Market Value of a share of Stock (“**Underwater Awards**”) and the grant in substitution therefore of new Options or SARs covering the same or a different number of shares but with an exercise price per share equal to the Fair Market Value per share on the new grant date, Full Value Awards, or payments in cash, or (b) the amendment of outstanding Underwater Awards to reduce the exercise price thereof to the Fair Market Value per share on the date of amendment.

10

3.7 **Indemnification.** In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, to the extent permitted by applicable law, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys’ fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. **SHARES SUBJECT TO PLAN.**

4.1 **Maximum Number of Shares Issuable.** Subject to adjustment as provided in Sections 4.2, 4.3 and 4.4, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be equal to 7,052,277 shares and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof.

4.2 **Annual Increase in Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.4, the maximum aggregate number of shares of Stock that may be issued under the Plan as set forth in Section 4.1 shall be cumulatively increased on January 1, 2015 and on each subsequent January 1 through and including January 1, 2024, by a number of shares (the “**Annual Increase**”) equal to the smaller of (a) four and five tenths percent (4.5%) of the number of shares of Stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Board.

4.3 **Share Counting.** If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company for an amount not greater than the Participant’s purchase price, the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash or to the extent that shares are withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to Section 16.2. Upon payment in shares of Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced only by the number of shares actually issued in such payment. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, or by means of a Net Exercise, the number of shares available for issuance under the Plan shall be reduced by the net number of shares for which the Option is exercised.

11

4.4 **Adjustments for Changes in Capital Structure.** Subject to any required action by the stockholders of the Company and the requirements of Sections 409A and 424 of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting regular, periodic cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number and kind of shares subject to the Plan and to any outstanding Awards, the Annual Increase, the Award limits set forth in Section 5.3, and in the exercise or purchase price per share under any outstanding Award in order to prevent dilution or enlargement of Participants’ rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as “effected without receipt of consideration by the Company.” If a majority of the shares which are of the same class as the shares that are subject to outstanding Awards are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the “**New Shares**”), the Committee may unilaterally amend the outstanding Awards to provide that such Awards are for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise or purchase price per share of, the outstanding Awards shall be adjusted in a fair and equitable manner as determined by the Committee, in its discretion. Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number and the exercise or purchase price per share shall be rounded up to the nearest whole cent. In no event may the exercise or purchase price, if any, under any Award be decreased to an amount less than the par value, if any, of the stock subject to such Award. The Committee in its discretion, may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate, including modification of Performance Goals, Performance Award Formulas and Performance Periods. The adjustments determined by the Committee pursuant to this Section shall be final, binding and conclusive.

4.5 **Assumption or Substitution of Awards.** The Committee may, without affecting the number of shares of Stock reserved or available hereunder, authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate, subject to compliance with Section 409A and any other applicable provisions of the Code.

5. **ELIGIBILITY, PARTICIPATION AND AWARD LIMITATIONS.**

5.1 **Persons Eligible for Awards.** Awards may be granted only to Employees, Consultants and Directors.

5.2 **Participation in the Plan.** Awards are granted solely at the discretion of the Committee. Eligible persons may be granted more than one Award. However, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be

5.3 Incentive Stock Option Limitations.

(a) **Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.** Subject to adjustment as provided in Section 4.4, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed 7,052,277 shares, cumulatively increased on January 1, 2015 and on each subsequent January 1, through and including January 1, 2024, by a number of shares equal to the smaller of the Annual Increase determined under Section 4.2 or 7,500,000 shares. The maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to all Awards other than Incentive Stock Options shall be the number of shares determined in accordance with Section 4.1, subject to adjustment as provided in Sections 4.2, 4.3 and 4.4.

(b) **Persons Eligible.** An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a Parent Corporation or a Subsidiary Corporation (each being an “*ISO-Qualifying Corporation*”). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option.

(c) **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a limitation different from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Upon exercise the Option, shares issued pursuant to each such portion shall be separately identified.

5.4 **Nonemployee Director Award Limit.** No Nonemployee Director shall be granted within any fiscal year of the Company one or more Nonemployee Director Awards pursuant to the Plan which in the aggregate are for more than a number of shares of Stock determined by dividing \$300,000 by the Fair Market Value of a share of Stock determined on the last trading day immediately preceding the date on which the applicable Nonemployee Director Award is granted.

6. STOCK OPTIONS.

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall establish. Such Award

Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner that would qualify under the provisions of Section 409A or Section 424(a) of the Code.

6.2 **Exercisability and Term of Options.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option and (c) no Option granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable until at least six (6) months following the date of grant of such Option (except in the event of such Employee’s death, disability or retirement, upon a Change in Control, or as otherwise permitted by the Worker Economic Opportunity Act). Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, each Option shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 Payment of Exercise Price.

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or in cash equivalent; (ii) if permitted by the Committee and subject to the limitations contained in Section 6.3(b), by means of (1) a Cashless Exercise, (2) a Stock Tender Exercise or (3) a Net Exercise; (iii) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (iv) by any combination thereof. The Committee may at any time or from time to time grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) Limitations on Forms of Consideration.

(i) **Cashless Exercise.** A “*Cashless Exercise*” means the delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with

respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

(ii) **Stock Tender Exercise.** A "**Stock Tender Exercise**" means the delivery of a properly executed exercise notice accompanied by a Participant's tender to the Company, or attestation to the ownership, in a form acceptable to the Company of whole shares of Stock owned by the Participant having a Fair Market Value that does not exceed the aggregate exercise price for the shares with respect to which the Option is exercised. A Stock Tender Exercise shall not be permitted if it would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. If required by the Company, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for a period of time required by the Company (and not used for another option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(iii) **Net Exercise.** A "**Net Exercise**" means the delivery of a properly executed exercise notice followed by a procedure pursuant to which (1) the Company will reduce the number of shares otherwise issuable to a Participant upon the exercise of an Option by the largest whole number of shares having a Fair Market Value that does not exceed the aggregate exercise price for the shares with respect to which the Option is exercised, and (2) the Participant shall pay to the Company in cash the remaining balance of such aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued.

6.4 **Effect of Termination of Service.**

(a) **Option Exercisability.** Subject to earlier termination of the Option as otherwise provided by this Plan and unless otherwise provided by the Committee, an Option shall terminate immediately upon the Participant's termination of Service to the extent that it is then unvested and shall be exercisable after the Participant's termination of Service to the extent it is then vested only during the applicable time period determined in accordance with this Section and thereafter shall terminate.

(i) **Disability.** If the Participant's Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable for vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of twelve (12) months (or such longer or shorter period provided by the Award Agreement) after the date on which the Participant's Service terminated, but in any event no later than the date of expiration of the Option's term as set forth in the Award Agreement evidencing such Option (the "**Option Expiration Date**").

15

(ii) **Death.** If the Participant's Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable for vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of twelve (12) months (or such longer or shorter period provided by the Award Agreement) after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. The Participant's Service shall be deemed to have terminated on account of death if the Participant dies within three (3) months (or such longer or shorter period provided by the Award Agreement) after the Participant's termination of Service.

(iii) **Termination for Cause.** Notwithstanding any other provision of the Plan to the contrary, if the Participant's Service is terminated for Cause or if, following the Participant's termination of Service and during any period in which the Option otherwise would remain exercisable, the Participant engages in any act that would constitute Cause, the Option shall terminate in its entirety and cease to be exercisable immediately upon such termination of Service or act.

(iv) **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable for vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of four (4) months (or such longer or shorter period provided by the Award Agreement) after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, other than termination of Service for Cause, if the exercise of an Option within the applicable time periods set forth in Section 6.4(a) is prevented by the provisions of Section 14 below, the Option shall remain exercisable until the later of (i) thirty (30) days after the date such exercise first would no longer be prevented by such provisions or (ii) the end of the applicable time period under Section 6.4(a), but in any event no later than the Option Expiration Date.

6.5 **Transferability of Options.** During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. An Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 under the Securities Act or, in the case of an Incentive Stock Option, only as permitted by applicable regulations under Section 421 of the Code in a manner that does not disqualify such Option as an Incentive Stock Option.

16

7. **STOCK APPRECIATION RIGHTS.**

Stock Appreciation Rights shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall establish. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

7.1 **Types of SARs Authorized.** SARs may be granted in tandem with all or any portion of a related Option (a “**Tandem SAR**”) or may be granted independently of any Option (a “**Freestanding SAR**”). A Tandem SAR may only be granted concurrently with the grant of the related Option.

7.2 **Exercise Price.** The exercise price for each SAR shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share subject to a Tandem SAR shall be the exercise price per share under the related Option and (b) the exercise price per share subject to a Freestanding SAR shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the SAR. Notwithstanding the foregoing, an SAR may be granted with an exercise price lower than the minimum exercise price set forth above if such SAR is granted pursuant to an assumption or substitution for another stock appreciation right in a manner that would qualify under the provisions of Section 409A of the Code.

7.3 **Exercisability and Term of SARs.**

(a) **Tandem SARs.** Tandem SARs shall be exercisable only at the time and to the extent, and only to the extent, that the related Option is exercisable, subject to such provisions as the Committee may specify where the Tandem SAR is granted with respect to less than the full number of shares of Stock subject to the related Option. The Committee may, in its discretion, provide in any Award Agreement evidencing a Tandem SAR that such SAR may not be exercised without the advance approval of the Company and, if such approval is not given, then the Option shall nevertheless remain exercisable in accordance with its terms. A Tandem SAR shall terminate and cease to be exercisable no later than the date on which the related Option expires or is terminated or canceled. Upon the exercise of a Tandem SAR with respect to some or all of the shares subject to such SAR, the related Option shall be canceled automatically as to the number of shares with respect to which the Tandem SAR was exercised. Upon the exercise of an Option related to a Tandem SAR as to some or all of the shares subject to such Option, the related Tandem SAR shall be canceled automatically as to the number of shares with respect to which the related Option was exercised.

(b) **Freestanding SARs.** Freestanding SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that (i) no Freestanding SAR shall be exercisable after the expiration of ten (10) years after the effective date of grant of such SAR and (ii) no Freestanding SAR granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable until at least six (6) months following the date of grant of such SAR (except in the event of such

17

Employee’s death, disability or retirement, upon a Change in Control, or as otherwise permitted by the Worker Economic Opportunity Act). Subject to the foregoing, unless otherwise specified by the Committee in the grant of a Freestanding SAR, each Freestanding SAR shall terminate ten (10) years after the effective date of grant of the SAR, unless earlier terminated in accordance with its provisions.

7.4 **Exercise of SARs.** Upon the exercise (or deemed exercise pursuant to Section 7.5) of an SAR, the Participant (or the Participant’s legal representative or other person who acquired the right to exercise the SAR by reason of the Participant’s death) shall be entitled to receive payment of an amount for each share with respect to which the SAR is exercised equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price. Payment of such amount shall be made (a) in the case of a Tandem SAR, solely in shares of Stock in a lump sum upon the date of exercise of the SAR and (b) in the case of a Freestanding SAR, in cash, shares of Stock, or any combination thereof as determined by the Committee, in a lump sum upon the date of exercise of the SAR. When payment is to be made in shares of Stock, the number of shares to be issued shall be determined on the basis of the Fair Market Value of a share of Stock on the date of exercise of the SAR. For purposes of Section 7, an SAR shall be deemed exercised on the date on which the Company receives notice of exercise from the Participant or as otherwise provided in Section 7.5.

7.5 **Deemed Exercise of SARs.** If, on the date on which an SAR would otherwise terminate or expire, the SAR by its terms remains exercisable immediately prior to such termination or expiration and, if so exercised, would result in a payment to the holder of such SAR, then any portion of such SAR which has not previously been exercised shall automatically be deemed to be exercised as of such date with respect to such portion.

7.6 **Effect of Termination of Service.** Subject to earlier termination of the SAR as otherwise provided herein and unless otherwise provided by the Committee, an SAR shall be exercisable after a Participant’s termination of Service only to the extent and during the applicable time period determined in accordance with Section 6.4 (treating the SAR as if it were an Option) and thereafter shall terminate.

7.7 **Transferability of SARs.** During the lifetime of the Participant, an SAR shall be exercisable only by the Participant or the Participant’s guardian or legal representative. An SAR shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Award, a Tandem SAR related to a Nonstatutory Stock Option or a Freestanding SAR shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 under the Securities Act.

8. **RESTRICTED STOCK AWARDS.**

Restricted Stock Awards shall be evidenced by Award Agreements specifying whether the Award is a Restricted Stock Bonus or a Restricted Stock Purchase Right and the

18

number of shares of Stock subject to the Award, in such form as the Committee shall establish. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 **Types of Restricted Stock Awards Authorized.** Restricted Stock Awards may be granted in the form of either a Restricted Stock Bonus or a Restricted Stock Purchase Right. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of or satisfaction of Vesting Conditions applicable to a Restricted Stock Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

8.2 **Purchase Price.** The purchase price for shares of Stock issuable under each Restricted Stock Purchase Right shall be established by the Committee in its discretion. No monetary payment (other than applicable tax withholding) shall be required as a condition of receiving shares of Stock pursuant to a Restricted Stock Bonus, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable state corporate law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock subject to a Restricted Stock Award.

8.3 **Purchase Period.** A Restricted Stock Purchase Right shall be exercisable within a period established by the Committee, which shall in no event exceed thirty (30) days from the effective date of the grant of the Restricted Stock Purchase Right.

8.4 **Payment of Purchase Price.** Except as otherwise provided below, payment of the purchase price for the number of shares of Stock being purchased pursuant to any Restricted Stock Purchase Right shall be made (a) in cash, by check or in cash equivalent, (b) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (c) by any combination thereof.

8.5 **Vesting and Restrictions on Transfer.** Shares issued pursuant to any Restricted Stock Award may (but need not) be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an Ownership Change Event or as provided in Section 8.8. The Committee, in its discretion, may provide in any Award Agreement evidencing a Restricted Stock Award that, if the satisfaction of Vesting Conditions with respect to any shares subject to such Restricted Stock Award would otherwise occur on a day on which the sale of such shares would violate the provisions of the Trading Compliance Policy, then satisfaction of the Vesting Conditions automatically shall be determined on the next trading day on which the sale of such shares would not violate the Trading Compliance Policy. Upon request by the

19

Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

8.6 **Voting Rights; Dividends and Distributions.** Except as provided in this Section, Section 8.5 and any Award Agreement, during any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares; provided, however, that if so determined by the Committee and provided by the Award Agreement, such dividends and distributions shall be subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid, and otherwise shall be paid no later than the end of the calendar year in which such dividends or distributions are paid to stockholders (or, if later, the 15th day of the third month following the date such dividends or distributions are paid to stockholders). In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.4, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

8.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee in the Award Agreement evidencing a Restricted Stock Award, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then (a) the Company shall have the option to repurchase for the purchase price paid by the Participant any shares acquired by the Participant pursuant to a Restricted Stock Purchase Right which remain subject to Vesting Conditions as of the date of the Participant's termination of Service and (b) the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Bonus which remain subject to Vesting Conditions as of the date of the Participant's termination of Service. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

8.8 **Nontransferability of Restricted Stock Award Rights.** Rights to acquire shares of Stock pursuant to a Restricted Stock Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

20

9. **RESTRICTED STOCK UNITS.**

Restricted Stock Unit Awards shall be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee shall establish. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

9.1 **Grant of Restricted Stock Unit Awards.** Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of a Restricted Stock Unit Award or the Vesting Conditions with respect to such Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

9.2 **Purchase Price.** No monetary payment (other than applicable tax withholding, if any) shall be required as a condition of receiving a Restricted Stock Unit Award, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable state corporate law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock issued upon settlement of the Restricted Stock Unit Award.

9.3 **Vesting.** Restricted Stock Unit Awards may (but need not) be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be

established by the Committee and set forth in the Award Agreement evidencing such Award. The Committee, in its discretion, may provide in any Award Agreement evidencing a Restricted Stock Unit Award that, if the satisfaction of Vesting Conditions with respect to any shares subject to the Award would otherwise occur on a day on which the sale of such shares would violate the provisions of the Trading Compliance Policy, then the satisfaction of the Vesting Conditions automatically shall be determined on the first to occur of (a) the next trading day on which the sale of such shares would not violate the Trading Compliance Policy or (b) the last day of the calendar year in which the original vesting date occurred.

9.4 **Voting Rights, Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date such Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date the Award is settled or the date on which it is terminated. Dividend Equivalent Rights, if any, shall be paid by crediting the Participant with a cash amount or with additional whole

21

Restricted Stock Units as of the date of payment of such cash dividends on Stock, as determined by the Committee. The number of additional Restricted Stock Units (rounded to the nearest whole number), if any, to be credited shall be determined by dividing (a) the amount of cash dividends paid on the dividend payment date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. If so determined by the Committee and provided by the Award Agreement, such cash amount or additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.4, appropriate adjustments shall be made in the Participant's Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.

9.5 **Effect of Termination of Service.** Unless otherwise provided by the Committee and set forth in the Award Agreement evidencing a Restricted Stock Unit Award, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

9.6 **Settlement of Restricted Stock Unit Awards.** The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant's Restricted Stock Unit Award vest or on such other date determined by the Committee in compliance with Section 409A, if applicable, and set forth in the Award Agreement one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 9.4) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes, if any. If permitted by the Committee, the Participant may elect, consistent with the requirements of Section 409A, to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section, and such deferred issuance date(s) and amount(s) elected by the Participant shall be set forth in the Award Agreement. Notwithstanding the foregoing, the Committee, in its discretion, may provide for settlement of any Restricted Stock Unit Award by payment to the Participant in cash of an amount equal to the Fair Market Value on the payment date of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

9.7 **Nontransferability of Restricted Stock Unit Awards.** The right to receive shares pursuant to a Restricted Stock Unit Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit

22

Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

10. **PERFORMANCE AWARDS.**

Performance Awards shall be evidenced by Award Agreements in such form as the Committee shall establish. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

10.1 **Types of Performance Awards Authorized.** Performance Awards may be granted in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

10.2 **Initial Value of Performance Shares and Performance Units.** Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share shall have an initial monetary value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.4, on the effective date of grant of the Performance Share, and each Performance Unit shall have an initial monetary value established by the Committee at the time of grant. The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

10.3 **Establishment of Performance Period, Performance Goals and Performance Award Formula.** In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period, Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. Unless otherwise permitted in compliance with the requirements under Section 162(m) with respect to each Performance Award intended to result in the payment of Performance-Based Compensation, the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each Performance Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain.

Once established, the Performance Goals and Performance Award Formula applicable to a Performance Award intended to result in the payment of Performance-Based Compensation to a Covered Employee shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

10.4 **Measurement of Performance Goals.** Performance Goals shall be established by the Committee on the basis of targets to be attained (“*Performance Targets*”)

23

with respect to one or more measures of business or financial performance (each, a “*Performance Measure*”), subject to the following:

(a) **Performance Measures.** Performance Measures shall be calculated in accordance with the Company’s financial statements, or, if such measures are not reported in the Company’s financial statements, they shall be calculated in accordance with generally accepted accounting principles, a method used generally in the Company’s industry, or in accordance with a methodology established by the Committee prior to the grant of the Performance Award. As specified by the Committee, Performance Measures may be calculated with respect to the Company and each Subsidiary Corporation consolidated therewith for financial reporting purposes, one or more Subsidiary Corporations or such division or other business unit of any of them selected by the Committee. Unless otherwise determined by the Committee prior to the grant of the Performance Award, the Performance Measures applicable to the Performance Award shall be calculated prior to the accrual of expense for any Performance Award for the same Performance Period and excluding the effect (whether positive or negative) on the Performance Measures of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance Award. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Measures in order to prevent the dilution or enlargement of the Participant’s rights with respect to a Performance Award. Performance Measures may be based upon one or more of the following, as determined by the Committee:

- (i) revenue;
- (ii) sales;
- (iii) expenses;
- (iv) operating income;
- (v) gross margin;
- (vi) operating margin;
- (vii) earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization;
- (viii) pre-tax profit;
- (ix) net operating income;
- (x) net income;
- (xi) economic value added;
- (xii) free cash flow;

24

- (xiii) operating cash flow;
- (xiv) balance of cash, cash equivalents and marketable securities;
- (xv) stock price;
- (xvi) earnings per share;
- (xvii) return on stockholder equity;
- (xviii) return on capital;
- (xix) return on assets;
- (xx) return on investment;
- (xxi) total stockholder return;
- (xxii) employee satisfaction;
- (xxiii) employee retention;

- (xxiv) market share;
- (xxv) customer satisfaction;
- (xxvi) product development;
- (xxvii) research and development expenses;
- (xxviii) completion of an identified special project; and
- (xxix) completion of a joint venture or other corporate transaction.

(b) **Performance Targets.** Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance Award determined under the applicable Performance Award Formula by the Performance Target level attained during the applicable Performance Period. A Performance Target may be stated as an absolute value, an increase or decrease in a value, or as a value determined relative to an index, budget or other standard selected by the Committee.

10.5 Settlement of Performance Awards.

(a) **Determination of Final Value.** As soon as practicable following the completion of the Performance Period applicable to a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.

25

(b) **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award granted to any Participant who is not a Covered Employee to reflect such Participant's individual performance in his or her position with the Company or such other factors as the Committee may determine. If permitted under a Covered Employee's Award Agreement, the Committee shall have the discretion, on the basis of such criteria as may be established by the Committee, to reduce some or all of the value of the Performance Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula. No such reduction may result in an increase in the amount payable upon settlement of another Participant's Performance Award that is intended to result in Performance-Based Compensation.

(c) **Effect of Leaves of Absence.** Unless otherwise required by law or a Participant's Award Agreement, payment of the final value, if any, of a Performance Award held by a Participant who has taken in excess of thirty (30) days in unpaid leaves of absence during a Performance Period shall be prorated on the basis of the number of days of the Participant's Service during the Performance Period during which the Participant was not on an unpaid leave of absence.

(d) **Notice to Participants.** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b), the Company shall notify each Participant of the determination of the Committee.

(e) **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b), but in any event within the Short-Term Deferral Period described in Section 15.1 (except as otherwise provided below or consistent with the requirements of Section 409A), payment shall be made to each eligible Participant (or such Participant's legal representative or other person who acquired the right to receive such payment by reason of the Participant's death) of the final value of the Participant's Performance Award. Payment of such amount shall be made in cash, shares of Stock, or a combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing a Performance Award, payment shall be made in a lump sum. If permitted by the Committee, the Participant may elect, consistent with the requirements of Section 409A, to defer receipt of all or any portion of the payment to be made to the Participant pursuant to this Section, and such deferred payment date(s) elected by the Participant shall be set forth in the Award Agreement. If any payment is to be made on a deferred basis, the Committee may, but shall not be obligated to, provide for the payment during the deferral period of Dividend Equivalent Rights or interest.

(f) **Provisions Applicable to Payment in Shares.** If payment is to be made in shares of Stock, the number of such shares shall be determined by dividing the final value of the Performance Award by the Fair Market Value of a share of Stock determined by the method specified in the Award Agreement. Shares of Stock issued in payment of any Performance Award may be fully vested and freely transferable shares or may be shares of Stock subject to Vesting Conditions as provided in Section 8.5. Any shares subject to Vesting

26

Conditions shall be evidenced by an appropriate Award Agreement and shall be subject to the provisions of Sections 8.5 through 8.8 above.

10.6 **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date the Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date on which the Performance Shares are settled or the date on which they are forfeited. Such Dividend Equivalent Rights, if any, shall be credited to the Participant either in cash or in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock, as determined by the Committee. The number of additional Performance Shares (rounded to the nearest whole number), if any, to be so credited shall be determined by dividing (a) the amount of cash dividends paid on the dividend payment date with respect to the number of shares of Stock represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalent Rights, if any, shall be accumulated and paid to the extent that the related Performance Shares become nonforfeitable. Settlement of Dividend Equivalent Rights may be made in cash, shares of Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 10.5. Dividend Equivalent Rights shall not be paid with respect to Performance Units. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.4, appropriate adjustments shall be made in the Participant's

Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals as are applicable to the Award.

10.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee and set forth in the Award Agreement evidencing a Performance Award, the effect of a Participant's termination of Service on the Performance Award shall be as follows:

(a) **Death or Disability.** If the Participant's Service terminates because of the death or Disability of the Participant before the completion of the Performance Period applicable to the Performance Award, the final value of the Participant's Performance Award shall be determined by the extent to which the applicable Performance Goals have been attained with respect to the entire Performance Period and shall be prorated based on the number of months of the Participant's Service during the Performance Period. Payment shall be made following the end of the Performance Period in any manner permitted by Section 10.5.

(b) **Other Termination of Service.** If the Participant's Service terminates for any reason except death or Disability before the completion of the Performance

27

Period applicable to the Performance Award, such Award shall be forfeited in its entirety; provided, however, that in the event of an involuntary termination of the Participant's Service, the Committee, in its discretion, may waive the automatic forfeiture of all or any portion of any such Award and determine the final value of the Performance Award in the manner provided by Section 10.7(a). Payment of any amount pursuant to this Section shall be made following the end of the Performance Period in any manner permitted by Section 10.5.

10.8 **Nontransferability of Performance Awards.** Prior to settlement in accordance with the provisions of the Plan, no Performance Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Performance Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

11. **CASH-BASED AWARDS AND OTHER STOCK-BASED AWARDS.**

Cash-Based Awards and Other Stock-Based Awards shall be evidenced by Award Agreements in such form as the Committee shall establish. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

11.1 **Grant of Cash-Based Awards.** Subject to the provisions of the Plan, the Committee, at any time and from time to time, may grant Cash-Based Awards to Participants in such amounts and upon such terms and conditions, including the achievement of performance criteria, as the Committee may determine.

11.2 **Grant of Other Stock-Based Awards.** The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted securities, stock-equivalent units, stock appreciation units, securities or debentures convertible into common stock or other forms determined by the Committee) in such amounts and subject to such terms and conditions as the Committee shall determine. Other Stock-Based Awards may be made available as a form of payment in the settlement of other Awards or as payment in lieu of compensation to which a Participant is otherwise entitled. Other Stock-Based Awards may involve the transfer of actual shares of Stock to Participants, or payment in cash or otherwise of amounts based on the value of Stock and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

11.3 **Value of Cash-Based and Other Stock-Based Awards.** Each Cash-Based Award shall specify a monetary payment amount or payment range as determined by the Committee. Each Other Stock-Based Award shall be expressed in terms of shares of Stock or units based on such shares of Stock, as determined by the Committee. The Committee may require the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. If the Committee exercises its discretion to establish performance criteria, the final value of

28

Cash-Based Awards or Other Stock-Based Awards that will be paid to the Participant will depend on the extent to which the performance criteria are met. The establishment of performance criteria with respect to the grant or vesting of any Cash-Based Award or Other Stock-Based Award intended to result in Performance-Based Compensation shall follow procedures substantially equivalent to those applicable to Performance Awards set forth in Section 10.

11.4 **Payment or Settlement of Cash-Based Awards and Other Stock-Based Awards.** Payment or settlement, if any, with respect to a Cash-Based Award or an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash, shares of Stock or other securities or any combination thereof as the Committee determines. The determination and certification of the final value with respect to any Cash-Based Award or Other Stock-Based Award intended to result in Performance-Based Compensation shall comply with the requirements applicable to Performance Awards set forth in Section 10. To the extent applicable, payment or settlement with respect to each Cash-Based Award and Other Stock-Based Award shall be made in compliance with the requirements of Section 409A.

11.5 **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Other Stock-Based Awards until the date of the issuance of such shares of Stock (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), if any, in settlement of such Award. However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Other Stock-Based Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date such Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date the Award is settled or the date on which it is terminated. Such Dividend Equivalent Rights, if any, shall be paid in accordance with the provisions set forth in Section 9.4. Dividend Equivalent Rights shall not be granted with respect to Cash-Based Awards. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.4, appropriate

adjustments shall be made in the Participant's Other Stock-Based Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of such Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions and performance criteria, if any, as are applicable to the Award.

11.6 **Effect of Termination of Service.** Each Award Agreement evidencing a Cash-Based Award or Other Stock-Based Award shall set forth the extent to which the Participant shall have the right to retain such Award following termination of the Participant's Service. Such provisions shall be determined in the discretion of the Committee, need not be uniform among all Cash-Based Awards or Other Stock-Based Awards, and may reflect distinctions based on the reasons for termination, subject to the requirements of Section 409A, if applicable.

29

11.7 **Nontransferability of Cash-Based Awards and Other Stock-Based Awards.** Prior to the payment or settlement of a Cash-Based Award or Other Stock-Based Award, the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. The Committee may impose such additional restrictions on any shares of Stock issued in settlement of Cash-Based Awards and Other Stock-Based Awards as it may deem advisable, including, without limitation, minimum holding period requirements, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such shares of Stock are then listed and/or traded, or under any state securities laws or foreign law applicable to such shares of Stock.

12. **STANDARD FORMS OF AWARD AGREEMENT.**

12.1 **Award Agreements.** Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. No Award or purported Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement, which execution may be evidenced by electronic means.

12.2 **Authority to Vary Terms.** The Committee shall have the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

13. **CHANGE IN CONTROL.**

13.1 **Effect of Change in Control on Awards.** Subject to the requirements and limitations of Section 409A, if applicable, the Committee may provide for any one or more of the following:

(a) **Accelerated Vesting.** In its discretion, the Committee may provide in the grant of any Award or at any other time may take such action as it deems appropriate to provide for acceleration of the exercisability, vesting and/or settlement in connection with a Change in Control of each or any outstanding Award or portion thereof and shares acquired pursuant thereto upon such conditions, including termination of the Participant's Service prior to, upon, or following the Change in Control, and to such extent as the Committee determines.

(b) **Assumption, Continuation or Substitution.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "**Acquiror**"), may, without the consent of any Participant, assume or continue the Company's rights and obligations under each or any Award or portion thereof outstanding immediately prior to the Change in Control or substitute for each or any such outstanding Award or portion thereof a substantially equivalent award with respect to the Acquiror's stock, as applicable. For purposes of this Section, if so determined by

30

the Committee in its discretion, an Award denominated in shares of Stock shall be deemed assumed if, following the Change in Control, the Award confers the right to receive, subject to the terms and conditions of the Plan and the applicable Award Agreement, for each share of Stock subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise or settlement of the Award, for each share of Stock subject to the Award, to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. Any Award or portion thereof which is neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised or settled as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

(c) **Cash-Out of Outstanding Stock-Based Awards.** The Committee may, in its discretion and without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Award denominated in shares of Stock or portion thereof outstanding immediately prior to the Change in Control and not previously exercised or settled shall be canceled in exchange for a payment with respect to each vested share (and each unvested share, if so determined by the Committee) of Stock subject to such canceled Award in (i) cash, (ii) stock of the Company or of a corporation or other business entity a party to the Change in Control, or (iii) other property which, in any such case, shall be in an amount having a Fair Market Value equal to the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control, reduced (but not below zero) by the exercise or purchase price per share, if any, under such Award. In the event such determination is made by the Committee, an Award having an exercise or purchase price per share equal to or greater than the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control may be canceled without payment of consideration to the holder thereof. Payment pursuant to this Section (reduced by applicable withholding taxes, if any) shall be made to Participants in respect of the vested portions of their canceled Awards as soon as practicable following the date of the Change in Control and in respect of the unvested portions of their canceled Awards in accordance with the vesting schedules applicable to such Awards.

13.2 **Effect of Change in Control on Nonemployee Director Awards.** Subject to the requirements and limitations of Section 409A, if applicable, including as provided by Section 15.4(f), in the event of a Change in Control, each outstanding Nonemployee Director Award shall become

immediately exercisable and vested in full and, except to the extent assumed, continued or substituted for pursuant to Section 13.1(b), shall be settled effective immediately prior to the time of consummation of the Change in Control.

13.3 **Federal Excise Tax Under Section 4999 of the Code.**

(a) **Excess Parachute Payment.** If any acceleration of vesting pursuant to an Award and any other payment or benefit received or to be received by a

31

Participant would subject the Participant to any excise tax pursuant to Section 4999 of the Code due to the characterization of such acceleration of vesting, payment or benefit as an “excess parachute payment” under Section 280G of the Code, then, provided such election would not subject the Participant to taxation under Section 409A, the Participant may elect to reduce the amount of any acceleration of vesting called for under the Award in order to avoid such characterization.

(b) **Determination by Independent Accountants.** To aid the Participant in making any election called for under Section 13.3(a), no later than the date of the occurrence of any event that might reasonably be anticipated to result in an “excess parachute payment” to the Participant as described in Section 13.3(a), the Company shall request a determination in writing by the professional firm engaged by the Company for general tax purposes, or, if the tax firm so engaged by the Company is serving as accountant or auditor for the Acquiror, the Company will appoint a nationally recognized tax firm to make the determinations required by this Section. (the “**Tax Firm**”). As soon as practicable thereafter, the Tax Firm shall determine and report to the Company and the Participant the amount of such acceleration of vesting, payments and benefits which would produce the greatest after-tax benefit to the Participant. For the purposes of such determination, the Tax Firm may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish to the Tax Firm such information and documents as the Tax Firm may reasonably request in order to make its required determination. The Company shall bear all fees and expenses the Tax Firm charge in connection with its services contemplated by this Section.

14. **COMPLIANCE WITH SECURITIES LAW.**

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award, or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

15. **COMPLIANCE WITH SECTION 409A.**

15.1 **Awards Subject to Section 409A.** The Company intends that Awards granted pursuant to the Plan shall either be exempt from or comply with Section 409A, and the

32

Plan shall be so construed. The provisions of this Section 15 shall apply to any Award or portion thereof that constitutes or provides for payment of Section 409A Deferred Compensation. Such Awards may include, without limitation:

(a) A Nonstatutory Stock Option or SAR that includes any feature for the deferral of compensation other than the deferral of recognition of income until the later of (i) the exercise or disposition of the Award or (ii) the time the stock acquired pursuant to the exercise of the Award first becomes substantially vested.

(b) Any Restricted Stock Unit Award, Performance Award, Cash-Based Award or Other Stock-Based Award that either (i) provides by its terms for settlement of all or any portion of the Award at a time or upon an event that will or may occur later than the end of the Short-Term Deferral Period (as defined below) or (ii) permits the Participant granted the Award to elect one or more dates or events upon which the Award will be settled after the end of the Short-Term Deferral Period.

Subject to the provisions of Section 409A, the term “**Short-Term Deferral Period**” means the 2½ month period ending on the later of (i) the 15th day of the third month following the end of the Participant’s taxable year in which the right to payment under the applicable portion of the Award is no longer subject to a substantial risk of forfeiture or (ii) the 15th day of the third month following the end of the Company’s taxable year in which the right to payment under the applicable portion of the Award is no longer subject to a substantial risk of forfeiture. For this purpose, the term “substantial risk of forfeiture” shall have the meaning provided by Section 409A.

15.2 **Deferral and/or Distribution Elections.** Except as otherwise permitted or required by Section 409A, the following rules shall apply to any compensation deferral and/or payment elections (each, an “**Election**”) that may be permitted or required by the Committee pursuant to an Award providing Section 409A Deferred Compensation:

(a) Elections must be in writing and specify the amount of the payment in settlement of an Award being deferred, as well as the time and form of payment as permitted by this Plan.

(b) Elections shall be made by the end of the Participant’s taxable year prior to the year in which services commence for which an Award may be granted to the Participant.

(c) Elections shall continue in effect until a written revocation or change in Election is received by the Company, except that a written revocation or change in Election must be received by the Company prior to the last day for making the Election determined in accordance with paragraph (b) above or as permitted by Section 15.3.

15.3 **Subsequent Elections.** Except as otherwise permitted or required by Section 409A, any Award providing Section 409A Deferred Compensation which permits a subsequent Election to delay the payment or change the form of payment in settlement of such Award shall comply with the following requirements:

33

(a) No subsequent Election may take effect until at least twelve (12) months after the date on which the subsequent Election is made.

(b) Each subsequent Election related to a payment in settlement of an Award not described in Section 15.4(a)(ii), 15.4(a)(iii) or 15.4(a)(vi) must result in a delay of the payment for a period of not less than five (5) years from the date on which such payment would otherwise have been made.

(c) No subsequent Election related to a payment pursuant to Section 15.4(a)(iv) shall be made less than twelve (12) months before the date on which such payment would otherwise have been made.

(d) Subsequent Elections shall continue in effect until a written revocation or change in the subsequent Election is received by the Company, except that a written revocation or change in a subsequent Election must be received by the Company prior to the last day for making the subsequent Election determined in accordance the preceding paragraphs of this Section 15.3.

15.4 **Payment of Section 409A Deferred Compensation.**

(a) **Permissible Payments.** Except as otherwise permitted or required by Section 409A, an Award providing Section 409A Deferred Compensation must provide for payment in settlement of the Award only upon one or more of the following:

(i) The Participant's "separation from service" (as defined by Section 409A);

(ii) The Participant's becoming "disabled" (as defined by Section 409A);

(iii) The Participant's death;

(iv) A time or fixed schedule that is either (i) specified by the Committee upon the grant of an Award and set forth in the Award Agreement evidencing such Award or (ii) specified by the Participant in an Election complying with the requirements of Section 15.2 or 15.3, as applicable;

(v) A change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company determined in accordance with Section 409A; or

(vi) The occurrence of an "unforeseeable emergency" (as defined by Section 409A).

(b) **Installment Payments.** It is the intent of this Plan that any right of a Participant to receive installment payments (within the meaning of Section 409A) shall, for all purposes of Section 409A, be treated as a right to a series of separate payments.

34

(c) **Required Delay in Payment to Specified Employee Pursuant to Separation from Service.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, except as otherwise permitted by Section 409A, no payment pursuant to Section 15.4(a)(i) in settlement of an Award providing for Section 409A Deferred Compensation may be made to a Participant who is a "specified employee" (as defined by Section 409A) as of the date of the Participant's separation from service before the date (the "**Delayed Payment Date**") that is six (6) months after the date of such Participant's separation from service, or, if earlier, the date of the Participant's death. All such amounts that would, but for this paragraph, become payable prior to the Delayed Payment Date shall be accumulated and paid on the Delayed Payment Date.

(d) **Payment Upon Disability.** All distributions of Section 409A Deferred Compensation payable pursuant to Section 15.4(a)(ii) by reason of a Participant becoming disabled shall be paid in a lump sum or in periodic installments as established by the Participant's Election. If the Participant has made no Election with respect to distributions of Section 409A Deferred Compensation upon becoming disabled, all such distributions shall be paid in a lump sum upon the determination that the Participant has become disabled.

(e) **Payment Upon Death.** If a Participant dies before complete distribution of amounts payable upon settlement of an Award subject to Section 409A, such undistributed amounts shall be distributed to his or her beneficiary under the distribution method for death established by the Participant's Election upon receipt by the Committee of satisfactory notice and confirmation of the Participant's death. If the Participant has made no Election with respect to distributions of Section 409A Deferred Compensation upon death, all such distributions shall be paid in a lump sum upon receipt by the Committee of satisfactory notice and confirmation of the Participant's death.

(f) **Payment Upon Change in Control.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, to the extent that any amount constituting Section 409A Deferred Compensation would become payable under this Plan by reason of a Change in Control, such amount shall become payable only if the event constituting a Change in Control would also constitute a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A. Any Award which constitutes Section 409A Deferred Compensation and which would vest and otherwise become payable upon a Change in Control as a result of the failure of the Acquiror to assume, continue or substitute for such Award in accordance with Section 13.1(b) shall vest to the extent provided by such Award but shall be converted automatically at the effective time of such Change in Control into a right to receive, in cash on the date or dates such award would have been settled in accordance with its then existing settlement schedule (or as required by Section 15.4(c)), an amount or amounts equal in the aggregate to the intrinsic value of the Award at the time of the Change in Control.

(g) **Payment Upon Unforeseeable Emergency.** The Committee shall have the authority to provide in the Award Agreement evidencing any Award providing for Section 409A Deferred Compensation for payment pursuant to Section 15.4(a)(vi) in settlement of all or a portion of such Award in the event that a Participant establishes, to the satisfaction of the Committee, the occurrence of an unforeseeable emergency. In such event, the amount(s)

35

distributed with respect to such unforeseeable emergency cannot exceed the amounts reasonably necessary to satisfy the emergency need plus amounts necessary to pay taxes reasonably anticipated as a result of such distribution(s), after taking into account the extent to which such emergency need is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship) or by cessation of deferrals under the Award. All distributions with respect to an unforeseeable emergency shall be made in a lump sum upon the Committee's determination that an unforeseeable emergency has occurred. The Committee's decision with respect to whether an unforeseeable emergency has occurred and the manner in which, if at all, the payment in settlement of an Award shall be altered or modified, shall be final, conclusive, and not subject to approval or appeal.

(h) **Prohibition of Acceleration of Payments.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, this Plan does not permit the acceleration of the time or schedule of any payment under an Award providing Section 409A Deferred Compensation, except as permitted by Section 409A.

(i) **No Representation Regarding Section 409A Compliance.** Notwithstanding any other provision of the Plan, the Company makes no representation that Awards shall be exempt from or comply with Section 409A. No Participating Company shall be liable for any tax, penalty or interest imposed on a Participant by Section 409A.

16. **TAX WITHHOLDING.**

16.1 **Tax Withholding in General.** The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, to make adequate provision for, the federal, state, local and foreign taxes (including social insurance), if any, required by law to be withheld by any Participating Company with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

16.2 **Withholding in or Directed Sale of Shares.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of any Participating Company. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates. The Company may require a Participant to direct a broker, upon the vesting, exercise or settlement of an Award, to sell a portion of the shares subject to the Award determined by the Company in its discretion to be sufficient to cover the tax withholding obligations of any Participating Company and to remit an amount equal to such tax withholding obligations to such Participating Company in cash.

36

17. **AMENDMENT, SUSPENSION OR TERMINATION OF PLAN.**

The Committee may amend, suspend or terminate the Plan at any time. However, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Sections 4.2, 4.3 and 4.4), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule, including the rules of any stock exchange or quotation system upon which the Stock may then be listed or quoted. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Committee. Except as provided by the next sentence, no amendment, suspension or termination of the Plan may have a materially adverse effect on any then outstanding Award without the consent of the Participant. Notwithstanding any other provision of the Plan or any Award Agreement to the contrary, the Committee may, in its sole and absolute discretion and without the consent of any Participant, amend the Plan or any Award Agreement, to take effect retroactively or otherwise, as it deems necessary or advisable for the purpose of conforming the Plan or such Award Agreement to any present or future law, regulation or rule applicable to the Plan, including, but not limited to, Section 409A.

18. **MISCELLANEOUS PROVISIONS.**

18.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

18.2 **Forfeiture Events.**

(a) The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of Service for Cause or any act by a Participant, whether before or after termination of Service, that would constitute Cause for termination of Service, or any accounting restatement due to material noncompliance of the Company with any financial reporting requirements of securities laws as a result of which, and to the extent that, such reduction, cancellation, forfeiture, or recoupment is required by applicable securities laws.

(b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, any Participant who knowingly or through gross

negligence engaged in the misconduct, or who knowingly or through gross negligence failed to prevent the misconduct, and any Participant who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, shall reimburse the Company for (i) the amount of any payment in settlement of an Award received by such Participant during the twelve- (12-) month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement, and (ii) any profits realized by such Participant from the sale of securities of the Company during such twelve- (12-) month period.

18.3 Provision of Information. Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

18.4 Rights as Employee, Consultant or Director. No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee's employer or that the Employee has an employment relationship with the Company.

18.5 Rights as a Stockholder. A Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.4 or another provision of the Plan.

18.6 Delivery of Title to Shares. Subject to any governing rules or regulations, the Company shall issue or cause to be issued the shares of Stock acquired pursuant to an Award and shall deliver such shares to or for the benefit of the Participant by means of one or more of the following: (a) by delivering to the Participant evidence of book entry shares of Stock credited to the account of the Participant, (b) by depositing such shares of Stock for the benefit of the Participant with any broker with which the Participant has an account relationship, or (c) by delivering such shares of Stock to the Participant in certificate form.

18.7 Fractional Shares. The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

18.8 Retirement and Welfare Plans. Neither Awards made under this Plan nor shares of Stock or cash paid pursuant to such Awards may be included as "compensation" for purposes of computing the benefits payable to any Participant under any Participating Company's retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a Participant's benefit.

18.9 Beneficiary Designation. Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

18.10 Severability. If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

18.11 No Constraint on Corporate Action. Nothing in this Plan shall be construed to: (a) limit, impair, or otherwise affect the Company's or another Participating Company's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or another Participating Company to take any action which such entity deems to be necessary or appropriate.

18.12 Unfunded Obligation. Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be considered unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.

18.13 Choice of Law. Except to the extent governed by applicable federal law, the validity, interpretation, construction and performance of the Plan and each Award Agreement shall be governed by the laws of the State of Illinois, without regard to its conflict of law rules.

PAYLOCITY HOLDING CORPORATION
STOCK OPTION AGREEMENT
(For U.S. Participants)

Paylocity Holding Corporation (the “*Company*”) has granted to the Participant named in the *Notice of Grant of Stock Option* (the “*Grant Notice*”) to which this Stock Option Agreement (the “*Option Agreement*”) is attached an option (the “*Option*”) to purchase certain shares of Stock upon the terms and conditions set forth in the Grant Notice and this Option Agreement. The Option has been granted pursuant to and shall in all respects be subject to the terms and conditions of the Paylocity Holding Corporation 2014 Equity Incentive Plan (the “*Plan*”), as amended to the Date of Grant, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of, and represents that the Participant has read and is familiar with, the Grant Notice, this Option Agreement, the Plan and a prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of shares issuable pursuant to the Option (the “*Plan Prospectus*”), (b) accepts the Option subject to all of the terms and conditions of the Grant Notice, this Option Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Option Agreement or the Plan.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Option Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

2. **TAX CONSEQUENCES.**

2.1 **Tax Status of Option.** This Option is intended to have the tax status designated in the Grant Notice.

(a) **Incentive Stock Option.** If the Grant Notice so designates, this Option is intended to be an Incentive Stock Option within the meaning of Section 422(b) of the Code, but the Company does not represent or warrant that this Option qualifies as such. The Participant should consult with the Participant’s own tax advisor regarding the tax effects of this Option and the requirements necessary to obtain favorable income tax treatment under Section 422 of the Code, including, but not limited to, holding period requirements. (NOTE TO PARTICIPANT: If the Option is exercised more than three (3) months after the date on which you cease to be an Employee (other than by reason of your death or permanent and total disability as defined in Section 22(e)(3) of the Code), the Option will be treated as a Nonstatutory Stock Option and not as an Incentive Stock Option to the extent required by Section 422 of the Code.)

(b) **Nonstatutory Stock Option.** If the Grant Notice so designates, this Option is intended to be a Nonstatutory Stock Option and shall not be treated as an Incentive Stock Option within the meaning of Section 422(b) of the Code.

2.2 **ISO Fair Market Value Limitation.** If the Grant Notice designates this Option as an Incentive Stock Option, then to the extent that the Option (together with all Incentive Stock Options granted to the Participant under all stock option plans of the Participating Company Group, including the Plan) becomes exercisable for the first time during any calendar year for shares having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount will be treated as Nonstatutory Stock Options. For purposes of this Section 2.2, options designated as Incentive Stock Options are taken into account in the order in which they were granted, and the Fair Market Value of stock is determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 2.2, such different limitation shall be deemed incorporated herein effective as of the date required or permitted by such amendment to the Code. If the Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 2.2, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option. (NOTE TO PARTICIPANT: If the aggregate Exercise Price of the Option (that is, the Exercise Price multiplied by the Number of Option Shares) plus the aggregate exercise price of any other Incentive Stock Options you hold (whether granted pursuant to the Plan or any other stock option plan of the Participating Company Group) is greater than \$100,000, you should contact the Chief Financial Officer of the Company to ascertain whether the entire Option qualifies as an Incentive Stock Option.)

3. **ADMINISTRATION.**

All questions of interpretation concerning the Grant Notice, this Option Agreement, the Plan or any other form of agreement or other document employed by the Company in the administration of the Plan or the Option shall be determined by the Committee. All such determinations by the Committee shall be final, binding and conclusive upon all persons having an interest in the Option, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or the Option or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest in the Option. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

4. **EXERCISE OF THE OPTION.**

4.1 **Right to Exercise.** Except as otherwise provided herein, the Option shall be exercisable on and after the Initial Vesting Date and prior to the termination of the Option (as

provided in Section 6) in an amount not to exceed the number of Vested Shares less the number of shares previously acquired upon exercise of the Option. In no event shall the Option be exercisable for more shares than the Number of Option Shares, as adjusted pursuant to Section 9.

4.2 Method of Exercise. Exercise of the Option shall be by means of electronic or written notice (the “*Exercise Notice*”) in a form authorized by the Company. An electronic Exercise Notice must be digitally signed or authenticated by the Participant in such manner as required by the notice and transmitted to the Company or an authorized representative of the Company (including a third-party administrator designated by the Company). In the event that the Participant is not authorized or is unable to provide an electronic Exercise Notice, the Option shall be exercised by a written Exercise Notice addressed to the Company, which shall be signed by the Participant and delivered in person, by certified or registered mail, return receipt requested, by confirmed facsimile transmission, or by such other means as the Company may permit, to the Company, or an authorized representative of the Company (including a third-party administrator designated by the Company). Each Exercise Notice, whether electronic or written, must state the Participant’s election to exercise the Option, the number of whole shares of Stock for which the Option is being exercised and such other representations and agreements as to the Participant’s investment intent with respect to such shares as may be required pursuant to the provisions of this Option Agreement. Further, each Exercise Notice must be received by the Company prior to the termination of the Option as set forth in Section 6 and must be accompanied by full payment of the aggregate Exercise Price for the number of shares of Stock being purchased. The Option shall be deemed to be exercised upon receipt by the Company of such electronic or written Exercise Notice and the aggregate Exercise Price.

4.3 Payment of Exercise Price.

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash, by check or in cash equivalent; (ii) if permitted by the Company and subject to the limitations contained in Section 4.3(b), by means of (1) a Cashless Exercise, (2) a Net-Exercise, or (3) a Stock Tender Exercise; or (iii) by any combination of the foregoing.

(b) **Limitations on Forms of Consideration.** The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any program or procedure providing for payment of the Exercise Price through any of the means described below, including with respect to the Participant notwithstanding that such program or procedures may be available to others.

(i) **Cashless Exercise.** A “*Cashless Exercise*” means the delivery of a properly executed Exercise Notice together with irrevocable instructions to a broker in a form acceptable to the Company providing for the assignment to the Company of the proceeds of a sale or loan with respect to shares of Stock acquired upon the exercise of the Option in an amount not less than the aggregate Exercise Price for such shares (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System).

(ii) **Net-Exercise.** A “*Net-Exercise*” means the delivery of a properly executed Exercise Notice electing a procedure pursuant to which (1) the Company will reduce the number of shares otherwise issuable to the Participant upon the exercise of the Option by the largest whole number of shares having a Fair Market Value that does not exceed the aggregate Exercise Price for the shares with respect to which the Option is exercised, and (2) the Participant shall pay to the Company in cash the remaining balance of such aggregate Exercise Price not satisfied by such reduction in the number of whole shares to be issued. Following a Net-Exercise, the number of shares remaining subject to the Option, if any, shall be reduced by the sum of (1) the net number of shares issued to the Participant upon such exercise, and (2) the number of shares deducted by the Company for payment of the aggregate Exercise Price.

(iii) **Stock Tender Exercise.** A “*Stock Tender Exercise*” means the delivery of a properly executed Exercise Notice accompanied by (1) the Participant’s tender to the Company, or attestation to the ownership, in a form acceptable to the Company of whole shares of Stock having a Fair Market Value that does not exceed the aggregate Exercise Price for the shares with respect to which the Option is exercised, and (2) the Participant’s payment to the Company in cash of the remaining balance of such aggregate Exercise Price not satisfied by such shares’ Fair Market Value. A Stock Tender Exercise shall not be permitted if it would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock. If required by the Company, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for a period of time required by the Company (and not used for another option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

4.4 Tax Withholding.

(a) **In General.** At the time the Option is exercised, in whole or in part, or at any time thereafter as requested by a Participating Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for (including by means of a Cashless Exercise to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax (including any social insurance) withholding obligations of the Participating Company Group, if any, which arise in connection with the Option. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Participating Company Group have been satisfied by the Participant.

(b) **Withholding in Shares.** The Company shall have the right, but not the obligation, to require the Participant to satisfy all or any portion of a Participating Company’s tax withholding obligations upon exercise of the Option by deducting from the shares of Stock otherwise issuable to the Participant upon such exercise a number of whole shares having a fair market value, as determined by the Company as of the date of exercise, not in excess of the amount of such tax withholding obligations determined by the applicable minimum statutory withholding rates.

4.5 Beneficial Ownership of Shares; Certificate Registration. The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the

Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares acquired by the Participant pursuant to the exercise of the Option. Except as provided by the preceding sentence, a certificate for the shares as to which the Option is exercised shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

4.6 **Restrictions on Grant of the Option and Issuance of Shares.** The grant of the Option and the issuance of shares of Stock upon exercise of the Option shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Option may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, the Option may not be exercised unless (i) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. **THE PARTICIPANT IS CAUTIONED THAT THE OPTION MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. ACCORDINGLY, THE PARTICIPANT MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE OPTION IS VESTED.** The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Option shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of the Option, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

4.7 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise of the Option.

5. **NONTRANSFERABILITY OF THE OPTION.**

During the lifetime of the Participant, the Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. The Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Following the death of the Participant, the Option, to the extent provided in Section 7, may be exercised by the Participant's legal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

6. **TERMINATION OF THE OPTION.**

The Option shall terminate and may no longer be exercised after the first to occur of (a) the close of business on the Option Expiration Date, (b) the close of business on the last

5

date for exercising the Option following termination of the Participant's Service as described in Section 7, or (c) a Change in Control to the extent provided in Section 8.

7. **EFFECT OF TERMINATION OF SERVICE.**

7.1 **Option Exercisability.** The Option shall terminate immediately upon the Participant's termination of Service to the extent that it is then unvested and shall be exercisable after the Participant's termination of Service to the extent it is then vested only during the applicable time period as determined below and thereafter shall terminate.

(a) **Disability.** If the Participant's Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable for Vested Shares on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(b) **Death.** If the Participant's Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable for Vested Shares on the date on which the Participant's Service terminated, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. The Participant's Service shall be deemed to have terminated on account of death if the Participant dies within three (3) months after the Participant's termination of Service.

(c) **Termination for Cause.** Notwithstanding any other provision of this Option Agreement to the contrary, if the Participant's Service is terminated for Cause or if, following the Participant's termination of Service and during any period in which the Option otherwise would remain exercisable, the Participant engages in any act that would constitute Cause, the Option shall terminate in its entirety and cease to be exercisable immediately upon such termination of Service or act.

(d) **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable for Vested Shares by the Participant on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of four (4) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

7.2 **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, other than termination of the Participant's Service for Cause, if the exercise of the Option within the applicable time periods set forth in Section 7.1 is prevented by the provisions of Section 4.6, the Option shall remain exercisable until the later of (a) thirty (30) days after the date such exercise first would no longer be prevented by such provisions, or (b) the end of the applicable time period under Section 7.1, but in any event no later than the Option Expiration Date.

6

8. **EFFECT OF CHANGE IN CONTROL.**

In the event of a Change in Control, except to the extent that the Committee determines to cash out the Option in accordance with Section 13.1(c) of the Plan, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the “Acquiror”), may, without the consent of the Participant, assume or continue in full force and effect the Company’s rights and obligations under all or any portion of the Option or substitute for all or any portion of the Option a substantially equivalent option for the Acquiror’s stock. For purposes of this Section, the Option or any portion thereof shall be deemed assumed if, following the Change in Control, the Option confers the right to receive, subject to the terms and conditions of the Plan and this Option Agreement, for each share of Stock subject to such portion of the Option immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise of the Option, for each share of Stock subject to the Option, to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. The Option shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control to the extent that the Option is neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised as of the time of the Change in Control.

9. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company and the requirements of Sections 409A and 424 of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number, Exercise Price and kind of shares subject to the Option, in order to prevent dilution or enlargement of the Participant’s rights under the Option. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as “effected without receipt of consideration by the Company.” Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number and the Exercise Price shall be rounded up to the nearest whole cent. In no event may the Exercise Price be decreased to an amount less than the par value, if any, of the stock subject to the Option. The Committee in its sole discretion, may also make such adjustments in the terms of the Option to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate. All adjustments pursuant to this Section shall be determined by the Committee, and its determination shall be final, binding and conclusive.

7

10. **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.**

The Participant shall have no rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of the shares for which the Option has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the shares are issued, except as provided in Section 9. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant’s employment is “at will” and is for no specified term. Nothing in this Option Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant’s Service as a Director, an Employee or Consultant, as the case may be, at any time.

11. **NOTICE OF SALES UPON DISQUALIFYING DISPOSITION.**

The Participant shall dispose of the shares acquired pursuant to the Option only in accordance with the provisions of this Option Agreement. In addition, if the Grant Notice designates this Option as an Incentive Stock Option, the Participant shall (a) promptly notify the Chief Financial Officer of the Company if the Participant disposes of any of the shares acquired pursuant to the Option within one (1) year after the date the Participant exercises all or part of the Option or within two (2) years after the Date of Grant and (b) provide the Company with a description of the circumstances of such disposition. Until such time as the Participant disposes of such shares in a manner consistent with the provisions of this Option Agreement, unless otherwise expressly authorized by the Company, the Participant shall hold all shares acquired pursuant to the Option in the Participant’s name (and not in the name of any nominee) for the one-year period immediately after the exercise of the Option and the two-year period immediately after Date of Grant. At any time during the one-year or two-year periods set forth above, the Company may place a legend on any certificate representing shares acquired pursuant to the Option requesting the transfer agent for the Company’s stock to notify the Company of any such transfers. The obligation of the Participant to notify the Company of any such transfer shall continue notwithstanding that a legend has been placed on the certificate pursuant to the preceding sentence.

12. **LEGENDS.**

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to the Option in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include, but shall not be limited to, the following:

“THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON EXERCISE

8

OF AN INCENTIVE STOCK OPTION AS DEFINED IN SECTION 422 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (“ISO”). IN ORDER TO OBTAIN THE PREFERENTIAL TAX TREATMENT AFFORDED TO ISOs, THE SHARES SHOULD NOT BE TRANSFERRED PRIOR TO [INSERT DISQUALIFYING DISPOSITION DATE HERE]. SHOULD THE REGISTERED HOLDER ELECT TO TRANSFER ANY OF THE SHARES PRIOR TO THIS DATE AND FOREGO ISO TAX TREATMENT, THE TRANSFER AGENT FOR THE SHARES SHALL NOTIFY THE CORPORATION IMMEDIATELY. THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE INCENTIVE STOCK OPTION IN THE REGISTERED HOLDER’S NAME (AND NOT IN THE NAME OF ANY NOMINEE) PRIOR TO THIS DATE OR UNTIL TRANSFERRED AS DESCRIBED ABOVE.”

13. **MISCELLANEOUS PROVISIONS.**

13.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or the Option at any time; provided, however, that except as provided in Section 8 in connection with a Change in Control, no such termination or amendment may have a materially adverse effect on the Option or any unexercised portion hereof without the consent of the Participant unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Option Agreement shall be effective unless in writing.

13.2 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Option Agreement.

13.3 **Binding Effect.** This Option Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

13.4 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Option Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address of such party set forth in the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Option Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, if permitted by the

9

Company, the Participant may deliver electronically the Grant Notice and Exercise Notice called for by Section 4.2 to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 13.4(a) of this Option Agreement and consents to the electronic delivery of the Plan documents and, if permitted by the Company, the delivery of the Grant Notice and Exercise Notice, as described in Section 13.4(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 13.4(a) or may change the electronic mail address to which such documents are to be delivered (if the Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 13.4(a).

13.5 **Integrated Agreement.** The Grant Notice, this Option Agreement and the Plan, together with the Superseding Agreement, if any, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein, the provisions of the Grant Notice, the Option Agreement and the Plan shall survive any exercise of the Option and shall remain in full force and effect.

13.6 **Applicable Law.** This Option Agreement shall be governed by the laws of the State of Illinois as such laws are applied to agreements between Illinois residents entered into and to be performed entirely within the State of Illinois.

13.7 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10

**PAYLOCITY HOLDING CORPORATION
NOTICE OF GRANT OF STOCK OPTION
(For U.S. Participants)**

Paylocity Holding Corporation (the "**Company**") has granted to the Participant an option (the "**Option**") to purchase certain shares of Stock pursuant to the Paylocity Holding Corporation 2014 Equity Incentive Plan (the "**Plan**"), as follows:

Participant:

Employee ID:

Date of Grant:

Number of Option Shares:

, subject to adjustment as provided by the Option Agreement.

Exercise Price:

\$

Vesting Start Date:

Option Expiration Date:

The tenth anniversary of the Date of Grant

Tax Status of Option:

Stock Option. (Enter "Incentive" or "Nonstatutory." If blank, this Option will be a Nonstatutory Stock Option.)

Vested Shares:

Except as provided in the Option Agreement and provided the Participant's Service has not terminated prior to the applicable date, the number of Vested Shares (disregarding any resulting fractional share) as of any date is determined by multiplying the Number of Option Shares by the "**Vested Ratio**" determined as of such date, as follows:

	<u>Vested Ratio</u>
Prior to first anniversary of Vesting Start Date	0
On first anniversary of Vesting Start Date (the " Initial Vesting Date ")	1/4
<u>Plus</u>	
For each additional full month of the Participant's Service from the Initial Vesting Date until the Vested Ratio equals 1/1, an additional	1/48

Superseding Agreement:

None

By their signatures below or by electronic acceptance or authentication in a form authorized by the Company, the Company and the Participant agree that the Option is governed by this Grant Notice and by the provisions of the Option Agreement and the Plan, both of which are made a part of this document, and by the Superseding Agreement, if any. The Participant acknowledges that copies of the Plan, the Option Agreement and the prospectus for the Plan are available on the Company's internal web site and may be viewed and printed by the Participant for attachment to the Participant's copy of this Grant Notice. The Participant represents that the Participant has read and is familiar with the provisions of the Option Agreement and the Plan, and hereby accepts the Option subject to all of their terms and conditions.

PAYLOCITY HOLDING CORPORATION**PARTICIPANT**

By: _____
 Peter McGrail
 Secretary

 Signature

 Date

Address:

Address

ATTACHMENTS: 2014 Equity Incentive Plan, as amended to the Date of Grant; Stock Option Agreement, Exercise Notice and Plan Prospectus

**PAYLOCITY HOLDING CORPORATION
 RESTRICTED STOCK AGREEMENT
 (For U.S. Participants)**

Paylocity Holding Corporation (the "**Company**") has granted to the Participant named in the *Notice of Grant of Restricted Stock* (the "**Grant Notice**") to which this Restricted Stock Agreement (the "**Agreement**") is attached an Award consisting of Shares subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to and shall in all respects be subject to the terms and conditions of the Paylocity Holding Corporation 2014 Equity Incentive Plan (the "**Plan**"), as amended to the Date of Grant, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan and a prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of the Shares (the "**Plan Prospectus**"), (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. DEFINITIONS AND CONSTRUCTION.

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. ADMINISTRATION.

All questions of interpretation concerning the Grant Notice, this Agreement, the Plan or any other form of agreement or other document employed by the Company in the administration of the Plan or the Award shall be determined by the Committee. All such determinations by the Committee shall be final, binding and conclusive upon all persons having an interest in the Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or the Award or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest in the Award. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

3. THE AWARD.

3.1 **Grant and Issuance of Shares.** On the Date of Grant, the Participant shall acquire and the Company shall issue, subject to the provisions of this Agreement, a number of Shares equal to the Total Number of Shares, subject to adjustment as provided in Section 9. As a condition to the

issuance of the Shares, the Participant shall execute and deliver the Grant Notice to the Company, and, if required by the Company, an Assignment Separate from Certificate duly endorsed (with date and number of shares blank) in the form provided by the Company.

3.2 **No Monetary Payment Required.** The Participant is not required to make any monetary payment (other than to satisfy applicable tax withholding, if any, with respect to the issuance or vesting of the Shares) as a condition to receiving the Shares, the consideration for which shall be past services actually rendered or future services to be rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the Shares issued pursuant to the Award.

3.3 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit the Shares with the Company's transfer agent, including any successor transfer agent, to be held in book entry form during the term of the Escrow pursuant to Section 6. Furthermore, the Participant hereby authorizes the Company, in its sole discretion, to deposit, following the term of such Escrow, for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all Shares which are no longer subject to such Escrow. Except as provided by the foregoing, a certificate for the Shares shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

3.4 **Issuance of Shares in Compliance with Law.** The issuance of the Shares shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No Shares shall be issued hereunder if their issuance would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any Shares shall relieve the Company of any liability in respect of the failure to issue such Shares as to which such requisite authority shall not have been obtained. As a condition to the issuance of the Shares, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

4. **VESTING OF SHARES.**

Shares acquired pursuant to this Agreement shall become Vested Shares as provided in the Grant Notice. For purposes of determining the number of Vested Shares

2

following an Ownership Change Event, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after the Ownership Change Event.

5. **COMPANY REACQUISITION RIGHT.**

5.1 **Grant of Company Recquisition Right.** Except to the extent otherwise provided by the Superseding Agreement, if any, in the event that (a) the Participant's Service terminates for any reason or no reason, with or without cause, or (b) the Participant, the Participant's legal representative, or other holder of the Shares, attempts to sell, exchange, transfer, pledge, or otherwise dispose of (other than pursuant to an Ownership Change Event), including, without limitation, any transfer to a nominee or agent of the Participant, any Shares which are not Vested Shares ("**Unvested Shares**"), the Participant shall forfeit and the Company shall automatically reacquire the Unvested Shares, and the Participant shall not be entitled to any payment therefor (the "**Company Recquisition Right**").

5.2 **Ownership Change Event, Non-Cash Dividends, Distributions and Adjustments.** Upon the occurrence of an Ownership Change Event, a dividend or distribution to the stockholders of the Company paid in shares of Stock or other property, or any other adjustment upon a change in the capital structure of the Company as described in Section 9, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) to which the Participant is entitled by reason of the Participant's ownership of Unvested Shares shall be immediately subject to the Company Recquisition Right and included in the terms "Shares," "Stock" and "Unvested Shares" for all purposes of the Company Recquisition Right with the same force and effect as the Unvested Shares immediately prior to the Ownership Change Event, dividend, distribution or adjustment, as the case may be. For purposes of determining the number of Vested Shares following an Ownership Change Event, dividend, distribution or adjustment, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after any such event.

5.3 **Obligation to Repay Certain Cash Dividends and Distributions.** The Participant shall, at the discretion of the Company, be obligated to promptly repay to the Company upon termination of the Participant's Service any dividends and other distributions paid to the Participant in cash with respect to Unvested Shares reacquired by the Company pursuant to the Company Recquisition Right.

6. **ESCROW.**

6.1 **Appointment of Agent.** To ensure that Shares subject to the Company Recquisition Right will be available for reacquisition, the Participant and the Company hereby appoint the Secretary of the Company, or any other person designated by the Company, as their agent and as attorney-in-fact for the Participant (the "**Agent**") to hold any and all Unvested Shares and to sell, assign and transfer to the Company any such Unvested Shares reacquired by the Company pursuant to the Company Recquisition Right. The Participant understands that appointment of the Agent is a material inducement to make this Agreement and that such

3

appointment is coupled with an interest and is irrevocable. The Agent shall not be personally liable for any act the Agent may do or omit to do hereunder as escrow agent, agent for the Company, or attorney in fact for the Participant while acting in good faith and in the exercise of the Agent's own good judgment, and any act done or omitted by the Agent pursuant to the advice of the Agent's own attorneys shall be conclusive evidence of such good faith. The Agent may rely upon any letter, notice or other document executed by any signature purporting to be genuine and may resign at any time.

6.2 **Establishment of Escrow.** The Participant authorizes the Company to deposit the Unvested Shares with the Company's transfer agent to be held in book entry form, as provided in Section 3.3, and the Participant agrees to deliver to and deposit with the Agent each certificate, if any, evidencing the Shares and, if required by the Company, an Assignment Separate from Certificate with respect to such book entry shares and each such certificate duly endorsed (with date and number of Shares blank) in the form attached to this Agreement, to be held by the Agent under the terms and conditions of this Section 6 (the "**Escrow**"). Upon the occurrence of an Ownership Change Event, a dividend or distribution to the stockholders of the Company paid in shares of Stock or other property (other than regular, periodic dividends paid on Stock pursuant to the Company's dividend policy) or any other adjustment upon a change in the capital structure of the Company, as described in Section 9, any and all new, substituted or additional securities or other property to which the Participant is entitled by reason of his or her ownership of the Shares that remain, following such Ownership Change Event, dividend, distribution or change described in Section 9, subject to the Company Reacquisition Right shall be immediately subject to the Escrow to the same extent as the Shares immediately before such event. The Company shall bear the expenses of the Escrow.

6.3 **Delivery of Shares to Participant.** The Escrow shall continue with respect to any Shares for so long as such Shares remain subject to the Company Reacquisition Right. Upon termination of the Company Reacquisition Right with respect to Shares, the Company shall so notify the Agent and direct the Agent to deliver such number of Shares to the Participant. As soon as practicable after receipt of such notice, the Agent shall cause the Shares specified by such notice to be delivered to the Participant, and the Escrow shall terminate with respect to such Shares.

7. **TAX MATTERS.**

7.1 **Tax Withholding.**

(a) **In General.** At the time the Grant Notice is executed, or at any time thereafter as requested by a Participating Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax (including any social insurance) withholding obligations of the Participating Company, if any, which arise in connection with the Award, including, without limitation, obligations arising upon (a) the transfer of Shares to the Participant, (b) the lapsing of any restriction with respect to any Shares, (c) the filing of an election to recognize tax liability, or (d) the transfer by the Participant of any Shares. The Company shall have no obligation to deliver the Shares or to

4

release any Shares from the Escrow established pursuant to Section 6 until the tax withholding obligations of the Participating Company have been satisfied by the Participant.

(b) **Assignment of Sale Proceeds.** Subject to compliance with applicable law and the Company's Trading Compliance Policy, if permitted by the Company, the Participant may satisfy the Participating Company's tax withholding obligations in accordance with procedures established by the Company providing for delivery by the Participant to the Company or a broker approved by the Company of properly executed instructions, in a form approved by the Company, providing for the assignment to the Company of the proceeds of a sale with respect to some or all of the shares becoming Vested Shares on a Vesting Date as provided in the Grant Notice.

(c) **Withholding in Shares.** The Company shall have the right, but not the obligation, to require the Participant to satisfy all or any portion of a Participating Company's tax withholding obligations by withholding a number of whole, Vested Shares otherwise deliverable to the Participant or by the Participant's tender to the Company of a number of whole, Vested Shares or vested shares acquired otherwise than pursuant to the Award having, in any such case, a fair market value, as determined by the Company as of the date on which the tax withholding obligations arise, not in excess of the amount of such tax withholding obligations determined by the applicable minimum statutory withholding rates.

7.2 **Election Under Section 83(b) of the Code.**

(a) The Participant understands that Section 83 of the Code taxes as ordinary income the difference between the amount paid for the Shares, if anything, and the fair market value of the Shares as of the date on which the Shares are "substantially vested," within the meaning of Section 83. In this context, "substantially vested" means that the right of the Company to reacquire the Shares pursuant to the Company Reacquisition Right has lapsed. The Participant understands that he or she may elect to have his or her taxable income determined at the time he or she acquires the Shares rather than when and as the Company Reacquisition Right lapses by filing an election under Section 83(b) of the Code with the Internal Revenue Service no later than thirty (30) days after the date of acquisition of the Shares. The Participant understands that failure to make a timely filing under Section 83(b) will result in his or her recognition of ordinary income, as the Company Reacquisition Right lapses, on the difference between the purchase price, if anything, and the fair market value of the Shares at the time such restrictions lapse. The Participant further understands, however, that if Shares with respect to which an election under Section 83(b) has been made are forfeited to the Company pursuant to its Company Reacquisition Right, such forfeiture will be treated as a sale on which there is realized a loss equal to the excess (if any) of the amount paid (if any) by the Participant for the forfeited Shares over the amount realized (if any) upon their forfeiture. If the Participant has paid nothing for the forfeited Shares and has received no payment upon their forfeiture, the Participant understands that he or she will be unable to recognize any loss on the forfeiture of the Shares even though the Participant incurred a tax liability by making an election under Section 83(b).

(b) The Participant understands that he or she should consult with his or her tax advisor regarding the advisability of filing with the Internal Revenue Service an election under Section 83(b) of the Code, which must be filed no later than thirty (30) days after

5

the date of the acquisition of the Shares pursuant to this Agreement. Failure to file an election under Section 83(b), if appropriate, may result in adverse tax consequences to the Participant. The Participant acknowledges that he or she has been advised to consult with a tax advisor regarding the tax consequences to the Participant of the acquisition of Shares hereunder. ANY ELECTION UNDER SECTION 83(b) THE PARTICIPANT WISHES TO MAKE MUST BE FILED NO LATER THAN 30 DAYS AFTER THE DATE ON WHICH THE PARTICIPANT ACQUIRES THE SHARES. THIS TIME PERIOD CANNOT BE EXTENDED. THE PARTICIPANT ACKNOWLEDGES THAT TIMELY FILING OF A SECTION 83(b) ELECTION IS THE PARTICIPANT'S SOLE RESPONSIBILITY, EVEN IF THE PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO FILE SUCH ELECTION ON HIS OR HER BEHALF.

(c) The Participant will notify the Company in writing if the Participant files an election pursuant to Section 83(b) of the Code. The Company intends, in the event it does not receive from the Participant evidence of such filing, to claim a tax deduction for any amount which would otherwise

be taxable to the Participant in the absence of such an election.

8. **EFFECT OF CHANGE IN CONTROL.**

In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the “**Acquiror**”), may, without the consent of the Participant, assume or continue in full force and effect the Company’s rights and obligations under the Award or substitute for the Award a substantially equivalent award for the Acquiror’s stock. For purposes of this Section, the Award shall be deemed assumed if, following the Change in Control, the Award confers the right to receive, subject to the terms and conditions of the Plan and this Agreement, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled. Notwithstanding the foregoing, Shares acquired pursuant to the Award prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of this Agreement except as otherwise provided herein.

9. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (other than regular, periodic cash dividends paid on Stock pursuant to the Company’s dividend policy) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number and kind of shares of stock or other property subject to the Award, in order to prevent dilution or enlargement of the

6

Participant’s rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as “effected without receipt of consideration by the Company.” Any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company’s dividend policy, subject to Section 5.3) to which Participant is entitled by reason of ownership of shares acquired pursuant to this Award will be immediately subject to the provisions of this Award on the same basis as all shares originally acquired hereunder. Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

10. **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.**

The Participant shall have no rights as a stockholder with respect to any Shares subject to the Award until the date of the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the Shares are issued, except as provided in Section 9. Subject to the provisions of this Agreement, the Participant shall exercise all rights and privileges of a stockholder of the Company with respect to Shares deposited in the Escrow pursuant to Section 6, including the right to vote such Shares and to receive all dividends and other distributions paid with respect to such Shares, subject to Section 5.3. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant’s employment is “at will” and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant’s Service at any time.

11. **LEGENDS.**

The Company may at any time place legends referencing the Company Reacquisition Right and any applicable federal, state or foreign securities law restrictions on all certificates representing the Shares. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing the Shares in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include, but shall not be limited to, the following:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS SET FORTH IN AN AGREEMENT BETWEEN THIS CORPORATION AND THE REGISTERED HOLDER, OR HIS PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THIS CORPORATION.”

7

12. **TRANSFERS IN VIOLATION OF AGREEMENT.**

No Shares may be sold, exchanged, transferred, assigned, pledged, hypothecated or otherwise disposed of, including by operation of law, in any manner which violates any of the provisions of this Agreement and, except pursuant to an Ownership Change Event, until the date on which such shares become Vested Shares, and any such attempted disposition shall be void. The Company shall not be required (a) to transfer on its books any Shares which will have been transferred in violation of any of the provisions set forth in this Agreement or (b) to treat as owner of such Shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such Shares will have been so transferred. In order to enforce its rights under this Section, the Company shall be authorized to give a stop transfer instruction with respect to the Shares to the Company’s transfer agent.

13. **MISCELLANEOUS PROVISIONS.**

13.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or this Agreement at any time; provided, however, that no such termination or amendment may have a materially adverse effect on the Participant’s rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation. No amendment or addition to this Agreement shall be effective unless in writing.

13.2 **Nontransferability of the Award.** The right to acquire Shares pursuant to the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer

by will or by the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

13.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

13.4 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

13.5 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address of such party set forth in the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

8

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, if permitted by the Company, the parties may deliver electronically any notices called for in connection with the Escrow and the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 13.5(a) of this Agreement and consents to the electronic delivery of the Plan documents and, if permitted by the Company, the delivery of the Grant Notice and notices in connection with the Escrow, as described in Section 13.5(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 13.5(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 13.5(a).

13.6 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with the Superseding Agreement, if any, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein or therein, the provisions of the Grant Notice, this Agreement and the Plan shall survive any settlement of the Award and shall remain in full force and effect.

13.7 **Applicable Law.** This Agreement shall be governed by the laws of the State of Illinois as such laws are applied to agreements between Illinois residents entered into and to be performed entirely within the State of Illinois.

13.8 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED the undersigned does hereby sell, assign and transfer unto

() shares of the Capital Stock of PAYLOCITY HOLDING CORPORATION standing in the undersigned's name on the books of said corporation represented by Certificate No. herewith and does hereby irrevocably constitute and appoint Attorney to transfer the said stock on the books of said corporation with full power of substitution in the premises.

Dated: _____

Signature

Print Name

Instructions: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Company to exercise its Company Recquisition Right set forth in the Restricted Stock Agreement without requiring additional signatures on the part of the Participant.

SAMPLE

Internal Revenue Service

[IRS Service Center where Form 1040 is Filed]

Re: Section 83(b) Election

Dear Sir or Madam:

The following information is submitted pursuant to section 1.83-2 of the Treasury Regulations in connection with this election by the undersigned under section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code").

1. The name, address and taxpayer identification number of the taxpayer are:

Name:

Address:

Social Security Number:

2. The following is a description of each item of property with respect to which the election is made:

shares of common stock of Paylocity Holding Corporation (the "Shares"), acquired from Paylocity Holding Corporation (the "Company") pursuant to a restricted stock grant.

3. The property was transferred to the undersigned on:

Restricted stock grant date:

The taxable year for which the election is made is:

Calendar Year

4. The nature of the restriction to which the property is subject:

The Shares are subject to automatic forfeiture to the Company upon the occurrence of certain events. This forfeiture provision lapses with regard to a portion of the Shares based upon the continued performance of services by the taxpayer over time.

5. The following is the fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) of the property with respect to which the election is made:

\$ (Shares at \$ per Share).

The property was transferred to the taxpayer pursuant to the grant of an award of restricted stock.

6. The following is the amount paid for the property:

No monetary consideration was provided in exchange for the Shares.

7. A copy of this election has been furnished to the Company, the corporation for which the services were performed by the undersigned.

Please acknowledge receipt of this election by date or received-stamping the enclosed copy of this letter and returning it to the undersigned. A self-addressed stamped envelope is provided for your convenience.

Very truly yours,

Date: _____

Enclosures
cc: Paylocity Holding Corporation

Paylocity Holding Corporation (the “**Company**”) has granted to the Participant an award (the “**Award**”) of certain shares of Stock (the “**Shares**”) pursuant to the Paylocity Holding Corporation 2014 Equity Incentive Plan (the “**Plan**”), as follows:

Participant:

Employee ID:

Date of Grant:

Total Number of Shares: _____, subject to adjustment as provided by the Restricted Stock Agreement.

Fair Market Value per Share on Date of Grant: \$ _____

Vesting Start Date:

Vested Shares: Except as provided in the Restricted Stock Agreement and provided that the Participant’s Service has not terminated prior to the applicable date, the number of Vested Shares (disregarding any resulting fractional share) as of any date is determined by multiplying the Total Number of Shares by the “**Vested Ratio**” determined as of such date, as follows:

	<u>Vested Ratio</u>
Prior to first anniversary of Vesting Start Date	0
On first anniversary of Vesting Start Date (the “ Initial Vesting Date ”)	1/4
<u>Plus</u>	
For each additional full year of the Participant’s Service from the Initial Vesting Date until the Vested Ratio equals 1/1, an additional	1/4

Superseding Agreement: None

By their signatures below or by electronic acceptance or authentication in a form authorized by the Company, the Company and the Participant agree that the Award is governed by this Grant Notice and by the provisions of the Restricted Stock Agreement and the Plan, both of which are made a part of this document, and by the Superseding Agreement, if any. The Participant acknowledges that copies of the Plan, the Restricted Stock Agreement and the prospectus for the Plan are available on the Company’s internal web site and may be viewed and printed by the Participant for attachment to the Participant’s copy of this Grant Notice. The Participant represents that the Participant has read and is familiar with the provisions of the Restricted Stock Agreement and the Plan, and hereby accepts the Award subject to all of their terms and conditions.

PAYLOCITY HOLDING CORPORATION

PARTICIPANT

By: _____
Peter McGrail
Secretary

Signature

Date

Address:

Address

ATTACHMENTS: 2014 Equity Incentive Plan, as amended to the Date of Grant; Restricted Stock Agreement; Assignment Separate from Certificate; form of Section 83(b) Election.

**PAYLOCITY HOLDING CORPORATION
RESTRICTED STOCK UNITS AGREEMENT
(For U.S. Participants)**

Paylocity Holding Corporation has granted to the Participant named in the *Notice of Grant of Restricted Stock Units* (the “**Grant Notice**”) to which this Restricted Stock Units Agreement (the “**Agreement**”) is attached an Award consisting of Restricted Stock Units (each a “**Unit**”) subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to and shall in all respects be subject to the terms conditions of the Paylocity Holding Corporation 2014 Equity Incentive Plan (the “**Plan**”), as amended to the Date of Grant, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan and a prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of the shares issuable pursuant to the Award (the “**Plan Prospectus**”), (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

2. **ADMINISTRATION.**

All questions of interpretation concerning the Grant Notice, this Agreement, the Plan or any other form of agreement or other document employed by the Company in the administration of the Plan or the Award shall be determined by the Committee. All such determinations by the Committee shall be final, binding and conclusive upon all persons having an interest in the Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or the Award or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest in the Award. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

3. **THE AWARD.**

3.1 **Grant of Units.** On the Date of Grant, the Participant shall acquire, subject to the provisions of this Agreement, the Total Number of Units set forth in the Grant Notice, subject to adjustment as provided in Section 9. Each Unit represents a right to receive on a date determined in accordance with the Grant Notice and this Agreement one (1) share of Stock.

3.2 **No Monetary Payment Required.** The Participant is not required to make any monetary payment (other than applicable tax withholding, if any) as a condition to receiving the Units or shares of Stock issued upon settlement of the Units, the consideration for which shall be past services actually rendered or future services to be rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock issued upon settlement of the Units.

4. **VESTING OF UNITS.**

Units acquired pursuant to this Agreement shall become Vested Units as provided in the Grant Notice. For purposes of determining the number of Vested Units following an Ownership Change Event, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after the Ownership Change Event.

5. **COMPANY REACQUISITION RIGHT.**

5.1 **Grant of Company Reacquisition Right.** Except to the extent otherwise provided by the Superseding Agreement, if any, in the event that the Participant's Service terminates for any reason or no reason, with or without cause, the Participant shall forfeit and the Company shall automatically reacquire all Units which are not, as of the time of such termination, Vested Units ("**Unvested Units**"), and the Participant shall not be entitled to any payment therefor (the "**Company Reacquisition Right**").

5.2 **Ownership Change Event, Non-Cash Dividends, Distributions and Adjustments.** Upon the occurrence of an Ownership Change Event, a dividend or distribution to the stockholders of the Company paid in shares of Stock or other property, or any other adjustment upon a change in the capital structure of the Company as described in Section 9, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) to which the Participant is entitled by reason of the Participant's ownership of Unvested Units shall be immediately subject to the Company Reacquisition Right and included in the terms "Units" and "Unvested Units" for all purposes of the Company Reacquisition Right with the same force and effect as the Unvested Units immediately prior to the Ownership Change Event, dividend, distribution or adjustment, as the case may be. For purposes of determining the number of Vested Units following an Ownership Change Event, dividend, distribution or adjustment, credited Service shall include all Service with any corporation which is a Participating Company

at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after any such event.

6. **SETTLEMENT OF THE AWARD.**

6.1 **Issuance of Shares of Stock.** Subject to the provisions of Section 6.3, the Company shall issue to the Participant on the Settlement Date with respect to each Vested Unit to be settled on such date one (1) share of Stock. The Settlement Date with respect to a Unit shall be the date on which such Unit becomes a Vested Unit as provided by the Grant Notice (an "**Original Settlement Date**"); provided, however, that if the Original Settlement Date would occur on a date on which a sale by the Participant of the shares to be issued in settlement of the Vested Units would violate the Trading Compliance Policy of the Company, the Settlement Date for such Vested Units shall be deferred until the next day on which the sale of such shares would not violate the Trading Compliance Policy, but in any event on or before the 15th day of the third calendar month following calendar year of the Original Settlement Date. Shares of Stock issued in settlement of Units shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 6.3, Section 7 or the Company's Trading Compliance Policy.

6.2 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit any or all shares acquired by the Participant pursuant to the settlement of the Award with the Company's transfer agent, including any successor transfer agent, to be held in book entry form, or to deposit such shares for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice. Except as provided by the foregoing, a certificate for the shares acquired by the Participant shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

6.3 **Restrictions on Grant of the Award and Issuance of Shares.** The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

7. **TAX WITHHOLDING.**

7.1 **In General.** At the time the Grant Notice is executed, or at any time thereafter as requested by a Participating Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax (including any social insurance) withholding obligations of the Participating Company, if any, which arise in connection with the Award, the vesting of Units or the issuance of shares of Stock in settlement thereof. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Participating Company have been satisfied by the Participant.

7.2 **Assignment of Sale Proceeds.** Subject to compliance with applicable law and the Company's Trading Compliance Policy, if permitted by the Company, the Participant may satisfy the Participating Company's tax withholding obligations in accordance with procedures established by the Company providing for delivery by the Participant to the Company or a broker approved by the Company of properly executed instructions, in a form approved by the Company, providing for the assignment to the Company of the proceeds of a sale with respect to some or all of the shares being acquired upon settlement of Units.

7.3 **Withholding in Shares.** The Company shall have the right, but not the obligation, to require the Participant to satisfy all or any portion of a Participating Company's tax withholding obligations by deducting from the shares of Stock otherwise deliverable to the Participant in settlement of the Award a number of whole shares having a fair market value, as determined by the Company as of the date on which the tax withholding obligations arise, not in excess of the amount of such tax withholding obligations determined by the applicable minimum statutory withholding rates.

8. **EFFECT OF CHANGE IN CONTROL.**

In the event of a Change in Control, except to the extent that the Committee determines to cash out the Award in accordance with Section 13.1(c) of the Plan, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "**Acquiror**"), may, without the consent of the Participant, assume or continue in full force and effect the Company's rights and obligations under all or any portion of the outstanding Units or substitute for all or any portion of the outstanding Units substantially equivalent rights with respect to the Acquiror's stock. For purposes of this Section, a Unit shall be deemed assumed if, following the Change in Control, the Unit confers the right to receive, subject to the terms and conditions of the Plan and this Agreement, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon settlement of the Unit to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. The Award shall terminate and cease to be outstanding effective as of the

time of consummation or the Change in Control to the extent that Units subject to the Award are neither assumed or continued by the Acquiror in connection with the Change in Control nor settled as of the time of the Change in Control.

9. **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.**

Subject to any required action by the stockholders of the Company and the requirements of Section 409A of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number of Units subject to the Award and/or the number and kind of shares or other property to be issued in settlement of the Award, in order to prevent dilution or enlargement of the Participant's rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends paid on Stock pursuant to the Company's dividend policy) to which the Participant is entitled by reason of ownership of Units acquired pursuant to this Award will be immediately subject to the provisions of this Award on the same basis as all Units originally acquired hereunder. Any fractional Unit or share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

10. **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT.**

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the shares are issued, except as provided in Section 9. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant's Service at any time.

11. **LEGENDS.**

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly

present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section.

12. COMPLIANCE WITH SECTION 409A.

It is intended that any election, payment or benefit which is made or provided pursuant to or in connection with this Award that may result in Section 409A Deferred Compensation shall comply in all respects with the applicable requirements of Section 409A (including applicable regulations or other administrative guidance thereunder, as determined by the Committee in good faith) to avoid the unfavorable tax consequences provided therein for non-compliance. In connection with effecting such compliance with Section 409A, the following shall apply:

12.1 **Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Participant's termination of Service which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the "**Section 409A Regulations**") shall be paid unless and until the Participant has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Participant is a "specified employee" within the meaning of the Section 409A Regulations as of the date of the Participant's separation from service, no amount that constitutes a deferral of compensation which is payable on account of the Participant's separation from service shall be paid to the Participant before the date (the "**Delayed Payment Date**") which is first day of the seventh month after the date of the Participant's separation from service or, if earlier, the date of the Participant's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

12.2 **Other Changes in Time of Payment.** Neither the Participant nor the Company shall take any action to accelerate or delay the payment of any benefits under this Agreement in any manner which would not be in compliance with the Section 409A Regulations.

12.3 **Amendments to Comply with Section 409A; Indemnification.** Notwithstanding any other provision of this Agreement to the contrary, the Company is authorized to amend this Agreement, to void or amend any election made by the Participant under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by the Company, in its discretion, to be necessary or appropriate to comply with the Section 409A Regulations without prior notice to or consent of the Participant. The Participant hereby releases and holds harmless the Company, its directors, officers and stockholders from any and all claims that may arise from or relate to any tax liability, penalties, interest, costs, fees or other liability incurred by the Participant in connection with the Award, including as a result of the application of Section 409A.

12.4 **Advice of Independent Tax Advisor.** The Company has not obtained a tax ruling or other confirmation from the Internal Revenue Service with regard to the application of Section 409A to the Award, and the Company does not represent or warrant that this

6

Agreement will avoid adverse tax consequences to the Participant, including as a result of the application of Section 409A to the Award. The Participant hereby acknowledges that he or she has been advised to seek the advice of his or her own independent tax advisor prior to entering into this Agreement and is not relying upon any representations of the Company or any of its agents as to the effect of or the advisability of entering into this Agreement.

13. MISCELLANEOUS PROVISIONS.

13.1 **Termination or Amendment.** The Committee may terminate or amend the Plan or this Agreement at any time; provided, however, that except as provided in Section 8 in connection with a Change in Control, no such termination or amendment may have a materially adverse effect on the Participant's rights under this Agreement without the consent of the Participant unless such termination or amendment is necessary to comply with applicable law or government regulation, including, but not limited to, Section 409A. No amendment or addition to this Agreement shall be effective unless in writing.

13.2 **Nontransferability of the Award.** Prior to the issuance of shares of Stock on the applicable Settlement Date, neither this Award nor any Units subject to this Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

13.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

13.4 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

13.5 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address of such party set forth in the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, if permitted by the Company, the

7

Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 13.5(a) of this Agreement and consents to the electronic delivery of the Plan documents and, if permitted by the Company, the delivery of the Grant Notice, as described in Section 13.5(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 13.5(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 13.5(a).

13.6 **Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with the Superseding Agreement, if any, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein or therein, the provisions of the Grant Notice, this Agreement and the Plan shall survive any settlement of the Award and shall remain in full force and effect.

13.7 **Applicable Law.** This Agreement shall be governed by the laws of the State of Illinois as such laws are applied to agreements between Illinois residents entered into and to be performed entirely within the State of Illinois.

13.8 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

**PAYLOCITY HOLDING CORPORATION
NOTICE OF GRANT OF RESTRICTED STOCK UNITS
(For U.S. Participants)**

Paylocity Holding Corporation (the “*Company*”) has granted to the Participant an award (the “*Award*”) of certain units pursuant to the Paylocity Holding Corporation 2014 Equity Incentive Plan (the “*Plan*”), each of which represents the right to receive on the applicable Settlement Date one (1) share of Stock, as follows:

Participant: _____ **Employee ID:** _____

Date of Grant: _____

Total Number of Units: _____, subject to adjustment as provided by the Restricted Stock Units Agreement.

Settlement Date: _____ Except as provided by the Restricted Stock Units Agreement, the date on which a Unit becomes a Vested Unit.

Vesting Start Date: _____

Vested Units: _____ Except as provided in the Restricted Stock Units Agreement and provided that the Participant’s Service has not terminated prior to the applicable date, the number of Vested Units (disregarding any resulting fractional Unit) as of any date is determined by multiplying the Total Number of Units by the “*Vested Ratio*” determined as of such date, as follows:

	Vested Ratio
Prior to first anniversary of Vesting Start Date	0
On first anniversary of Vesting Start Date (the “ <i>Initial Vesting Date</i> ”)	1/4
<u>Plus</u>	
For each additional period of 3 full months of the Participant’s Service from the Initial Vesting Date until the Vested Ratio equals 1/1, an additional	1/16

Superseding Agreement: _____ None

By their signatures below or by electronic acceptance or authentication in a form authorized by the Company, the Company and the Participant agree that the Award is governed by this Grant Notice and by the provisions of the Restricted Stock Units Agreement and the Plan, both of which are made a part of this document, and by the Superseding Agreement, if any. The Participant acknowledges that copies of the Plan, the Restricted Stock Units Agreement and the prospectus for the Plan are available on the Company’s internal web site and may be viewed and printed by the Participant for attachment to the Participant’s copy of this Grant Notice. The Participant represents that the Participant has read and is familiar with the provisions of the Restricted Stock Units Agreement and the Plan, and hereby accepts the Award subject to all of their terms and conditions.

PAYLOCITY HOLDING CORPORATION **PARTICIPANT**

By: _____ Signature _____
 Peter McGrail
 Secretary

Date

Address:

Address

ATTACHMENTS: 2014 Equity Incentive Plan, as amended to the Date of Grant; Restricted Stock Units Agreement and Plan Prospectus

**THIRD AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT**

This Third Amended and Restated Executive Employment Agreement (“**Restated Agreement**”), which shall amend and restate in its entirety the Employment Agreement by and between Paylocity Corporation, an Illinois corporation (“**Company**”) and Steven R. Beauchamp (“**Executive**”) dated as of October 4, 2007 (“**Original Agreement**”) as previously amended in the Further Amended and Restated Employment Agreement dated December 21, 2008, is made and entered into by the Company and Executive effective as of February 7, 2014 (the “**Effective Date**”).

WHEREAS, Section 12(d) of the Further Amended and restated Employment Agreement provides that it may be amended or modified only with a written instrument executed by all parties.

WHEREAS, the Board of Directors of the Company (“**Board**”) has determined, and the undersigned parties hereto agree, that it is in the best interest of the Company and its stockholders to amend and restate the Further Amended and restated Employment Agreement in its entirety to clarify certain terms and conditions of employment of Executive as set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained in this Restated Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Company hereby agree as follows:

1. **Employment.** Company hereby employs Executive, and Executive hereby accepts such employment, upon the terms and conditions set forth herein.

2. **Duties.**

2.1 **Position.** Executive is employed as President and Chief Executive Officer and shall have the duties and responsibilities assigned by Company’s Board. Executive shall perform faithfully and diligently all duties assigned to Executive. Company reserves the right to modify Executive’s position and duties at any time in its sole and absolute discretion.

2.2 **Best Efforts/Full-time.** Executive will expend Executive’s best efforts on behalf of Company, and will abide by all policies and decisions made by Company, as well as all applicable federal, state and local laws, regulations or ordinances. Executive will act in the best interest of Company at all times. Executive shall devote Executive’s full business time and efforts to the performance of Executive’s assigned duties for Company, unless Executive notifies the Board in advance of Executive’s intent to engage in other paid work and receives express written consent from the Board to do so. Notwithstanding the foregoing, Executive will be permitted to serve as an outside director on the board of directors for nonprofit or charitable entities or managing Executive’s personal financial and legal affairs, so long as the foregoing activities, provided such entities are not competitive with Company and subject to the provisions of section 10 below.

1

2.3 **Work Location.** Executive’s principal place of work shall be located in Arlington Heights, Illinois, or such other location as Company may direct from time to time in connection with the performance of Executive’s duties.

3. **At-Will Employment.** Executive’s employment with Company is at-will and not for any specified period and may be terminated at any time, with or without cause (as defined below) or advance notice, by either Executive or Company. No representative of Company, other than the Board, has the authority to alter the at-will employment relationship. Any change to the at-will employment relationship must be by specific, written agreement signed by Executive and the Company’s Board. Nothing in this Agreement is intended to or should be construed to contradict, modify or alter this at-will relationship.

4. **Compensation.**

4.1 **Base Salary.** As compensation for Executive’s performance of Executive’s duties hereunder, for fiscal year 2014, Company shall pay to Executive an annualized base salary of \$425,427, less required deductions for state and federal withholding tax, social security and all other employment taxes and payroll deductions, payable in accordance with the normal payroll practices of Company. Company shall conduct a review of Executive’s base salary with a targeted increase of no less than five percent (5%) annually based on agreed upon financial objectives for each fiscal year. The salary increase will be evaluated after each fiscal year and implemented in September of each year contingent upon accomplishing specific annual objectives to be agreed upon by Employer and Employee. In the event Executive’s employment under this Restated Agreement is terminated by either party, for any reason, Executive will earn the base salary prorated to the date of termination.

4.2 **Incentive Compensation.** Executive shall be eligible to earn an annual performance bonus, the target amount of which is 20% of Executive’s base salary (“**Annual Bonus**”). The Annual Bonus will be based on Executive’s achievement of Company’s annual business plan objectives, which shall be established by Company’s Compensation Committee and communicated to Executive within 30 days of the beginning of each fiscal year. Executive’s achievement of the business plan objectives will be determined by the Compensation Committee in its sole discretion. The Annual Bonus shall be less all required taxes and withholdings and will be paid out within 60 days following the end of the fiscal year in which it is earned.

4.3 **Acceleration of Equity Incentive Grants.** Company and/or Paylocity Holding Corporation, Company’s parent (“**Parent**”) has previously granted or may in the future grant to Executive equity awards subject to time-based vesting in connection with his employment. Immediately prior to the consummation of a Change in Control, the vesting of all unvested shares subject to outstanding equity awards with time-based vesting issued to Executive by Company and/or Parent shall be accelerated in full and, if applicable, such equity awards shall become exercisable or shall be settled in full immediately prior to such Change in Control provided that Executive’s employment with Company or Parent has not terminated prior to such Change in Control. For the purposes of this Restated Agreement, “**Change in Control**” shall mean (i) the acquisition by any person, entity or “group” (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership (within the meaning of Rule 13d-3

2

promulgated under the Exchange Act) of 50% or more of either the then outstanding equity interests in Parent or the combined voting power of Parent's then outstanding voting securities; or (ii) the consummation of a reorganization, merger or consolidation of Parent or the sale of all or substantially all of the assets of Parent, in each case with respect to which persons who held equity interests in Parent immediately prior to such reorganization, merger, consolidation or sale do not immediately thereafter own, directly or indirectly, 50% or more of the combined voting power of the then outstanding securities of the surviving or resulting corporation or other entity; provided, however, that any such transaction consummated in connection with, or for the purpose of facilitating, an initial public offering shall not constitute a Change in Control hereunder; provided further, however, that a Change in Control shall not include a transaction undertaken for the principal purpose of restructuring the capital of Parent, including, but not limited to, reincorporating Parent in a different jurisdiction, converting Parent to a limited liability company or creating a holding company. Notwithstanding the foregoing, a Change in Control shall not occur for purposes of this Restated Agreement unless such Change in Control constitutes a "change in control event" under Section 409A of the Code and the regulations thereunder.

5. Customary Fringe Benefits. Executive will be eligible for all customary and usual fringe benefits generally available to Executives of Company subject to the terms and conditions of Company's benefit plan documents. Company reserves the right to change or eliminate the fringe benefits on a prospective basis, at any time, effective upon notice to Executive.

6. Business Expenses. Executive will be reimbursed for all reasonable, out-of-pocket business expenses incurred in the performance of Executive's duties on behalf of Company. To obtain reimbursement, expenses must be submitted promptly with appropriate supporting documentation and will be reimbursed in accordance with Company's policies. Any reimbursement Executive is entitled to receive shall (a) be paid no later than the last day of Executive's tax year following the tax year in which the expense was incurred, (b) not be affected by any other expenses that are eligible for reimbursement in any tax year and (c) not be subject to liquidation or exchange for another benefit.

7. Termination of Executive's Employment.

7.1 Termination for Cause by Company. Company may terminate Executive's employment immediately at any time for Cause. For purposes of this Agreement, "Cause" is defined as: (i) material dishonest or fraudulent behavior, or convictions of a felony; (ii) the material breach of any covenant contained or referred to in this Agreement; (iii) the failure of Executive to meet fair and reasonable performance standards established by Company from time to time; (iv) Executive's failure or refusal to perform specific directives of Company's Board, which directives are consistent with the scope and nature of Executive's duties and responsibilities, and which are not remedied by Executive within thirty (30) days after written notice; (v) any violation of the covenant not to disclose confidential information regarding the business of Company and its products as set forth in Section 7 of this Restated Agreement; or (vi) any act of material dishonesty by Executive which adversely affects the business of Company. In the event Executive's employment is terminated in accordance with this subsection 7.1, Executive shall be entitled to receive only Executive's base salary then in effect, prorated to the date of termination and all benefits accrued through the date of termination

3

("Accrued Benefits"). All other Company obligations to Executive pursuant to this Restated Agreement will become automatically terminated and completely extinguished. Executive will not be entitled to receive the Severance Payment described in subsection 7.2 below.

7.2 Termination Without Cause by Company/Severance. Company may terminate Executive's employment under this Agreement without Cause at any time on thirty (30) days' advance written notice to Executive. In the event of such termination, Executive will receive Executive's Base Salary then in effect, prorated to the date of termination, and Accrued Benefits. In addition, Executive will receive a "Severance Payment" equivalent to twelve (12) months of Executive's base salary then in effect on the date of termination, payable as salary continuation in equal installments in accordance with Company's regular payroll cycle over a twelve (12) month period, beginning on the first regular payday occurring 60 days following the termination date. Executive will only receive the Severance Payment if Executive executes a full general release in a form acceptable to Company, releasing all claims, known or unknown, that Executive may have against Company arising out of or any way related to Executive's employment or termination of employment with Company, and such release has become effective in accordance with its terms prior to the 60th day following the termination date. All other Company obligations to Executive will be automatically terminated and completely extinguished. If Executive's employment with Company terminates due to Executive's death or Executive's inability to perform the essential functions of Executive's position with or without reasonable accommodation, Executive shall not be entitled to the Severance Payment described above.

7.3 Voluntary Resignation by Executive. Executive may voluntarily resign Executive's position with Company at any time on thirty (30) days' advance written notice. In the event of Executive's voluntary resignation, Executive will be entitled to receive only Accrued Benefits for the thirty-day notice period and no other amount. All other Company obligations to Executive pursuant to this Restated Agreement will become automatically terminated and completely extinguished. In addition, Executive will not be entitled to receive the Severance Payment described in subsection 7.2 above.

8. Resignation of Board or Other Positions. Upon the termination of Executive's employment for any reason, Executive agrees to immediately resign all other positions (including Board membership) Executive may hold on behalf of Company.

9. Application of Section 409A.

(a) Notwithstanding anything set forth in this Restated Agreement to the contrary, no amount payable pursuant to this Restated Agreement which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the "**Section 409A Regulations**") shall be paid unless and until Executive has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that Executive is a "specified employee" within the meaning of the Section 409A Regulations as of the date of Executive's separation from service, no amount that constitutes a deferral of compensation which is payable on account of Executive's separation from service shall be paid to Executive before the date (the "**Delayed Payment Date**") which is first day of the seventh month after the date of Executive's separation

4

from service or, if earlier, the date of Executive's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

(b) Company intends that income provided to Executive pursuant to this Restated Agreement will not be subject to taxation under Section 409A of the Code. The provisions of this Restated Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Code. **However, Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Restated Agreement.** In any event, except for Company's responsibility to withhold applicable income and employment taxes from compensation paid or provided to

Executive, Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to Executive pursuant to this Restated Agreement.

(c) Notwithstanding anything herein to the contrary, the reimbursement of expenses or in-kind benefits provided pursuant to this Restated Agreement shall be subject to the following conditions: (1) the expenses eligible for reimbursement or in-kind benefits in one taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits in any other taxable year; (2) the reimbursement of eligible expenses or in-kind benefits shall be made promptly, subject to Company's applicable policies, but in no event later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(d) For purposes of Section 409A of the Code, the right to a series of installment payments under this Restated Agreement shall be treated as a right to a series of separate payments.

10. No Conflict of Interest. During the term of Executive's employment with Company, Executive must not engage in any work, paid or unpaid, or other activities that create a conflict of interest. Such work and/or activities shall include, but is not limited to, directly or indirectly competing with Company in any way, or acting as an officer, director, employee, consultant, stockholder, volunteer, lender, or agent of any business enterprise of the same nature as, or which is in direct competition with, the business in which Company is now engaged or in which Company becomes engaged during the term of Executive's employment with Company, as may be determined by Board in its sole discretion. If Company's Board believes such a conflict exists during the term of this Restated Agreement, Company may ask Executive to choose to discontinue the other work and/or activities or resign employment with Company.

11. Non-Competition. Executive agrees that during Executive's employment with Company and for a period of twelve (12) months immediately following termination of such employment for any reason (the "Non-competition Period"), Executive shall not in any manner, directly or indirectly, through any person, firm or corporation, alone or as a member of a partnership or as an officer, director, stockholder, investor or employee of or consultant to any other corporation or enterprise or otherwise, engage or be engaged, or assist any other person, firm, corporation or enterprise in engaging or being engaged, in any business, in which Executive was involved or had knowledge, being conducted by, or contemplated by, Company or

5

any of its subsidiaries as of the termination of Executive's employment in any geographic area in which Company or any of its subsidiaries is then conducting such business.

12. Non-Solicitation. Executive acknowledges that Company's relationship with its clients, employees, vendors, suppliers and other persons with whom Company has a business relationship (hereinafter referred to as "Prohibited Persons"), are special and unique, and that Company's relationship with the Prohibited Persons may not be able to be replaced by Company. Executive further acknowledges that the protection of Company's Prohibited Persons is essential. Therefore, Executive expressly covenants and agrees that during Executive's employment with Company and for a period of twelve (12) months immediately following termination of Executive's employment for any reason (the "Non-solicitation Period"), Executive will not at any time for himself or on behalf of any other person, firm, partnership or corporation: (1) induce, or attempt to induce, any Prohibited Persons either to refrain, or to cease doing business with Company; or (2) directly or indirectly solicit, hire, induce or otherwise engage a Prohibited Person in any competitive business.

13. Nondisclosure of Confidential Information.

13.1 Executive recognizes that the knowledge and information about, and relationships with business associates, customers, clients and agents of Company and its affiliated companies, and the business methods, systems, plans, and policies of Company and of its affiliated companies, which Executive may receive, obtain, or establish as an employee of Company are valuable and unique assets of Company or its affiliates. Executive agrees that, during any Employment Period and thereafter, Executive shall not disclose or remove, without the written consent of Company, (i) any material or substantial, confidential, or proprietary know-how, data, or information, including, but not limited to software, data, information relating to customers, pricing, safety manuals, training manuals, Quality Assurance/Quality Control manuals, mandatory processes and means or techniques pertaining to Company or its affiliates, and (ii) any business plans, strategies, targets, or directives, to any person, firm, corporation, or any other entity, for any reason or purpose whatsoever. Executive acknowledges and agrees that all memoranda, notes, records, clients lists, client information and other documents, computer software, data or material in any form made or compiled by Executive or made available to Executive concerning Company's business is and shall be Company's exclusive property and shall be delivered by Executive to Company upon termination of Executive's employment or at any other time upon the request of Company.

13.2 The restrictions in the above paragraph shall not apply to: (1) information that at the time of disclosure is in the public domain through no fault of Executive's; (2) information received from a third party outside of Company that was disclosed without a breach of any confidentiality obligation; (3) information approved for release by written authorization of Company; or (4) information that may be required by law or an order of any court, agency or proceeding to be disclosed. Executive shall provide Company notice of any such required disclosure once Executive has knowledge of it and will help Company to the extent reasonable to obtain an appropriate protective order.

13.3 Company acknowledges that Executive has had significant prior work experience in the industry in which Company is engaged, and that Executive enters into this

6

Restated Agreement with significant prior knowledge, information and relationships in such industry.

14. Enforcement: Remedies, Construction.

14.1 Executive covenants, agrees, and recognizes the breach or threatened breach of the covenants, or any of them, contained in Sections 11, 12 and 13 will result in immediate and irreparable injury to Company and that Company shall be entitled to an injunction restraining Executive or any of his affiliates from any violation of Sections 11, 12 and 13 to the fullest extent allowed by law. Executive further covenants and agrees that in the event of a violation of any of his respective covenants and agreements contained in Sections 11, 12 and 13 hereof, Company shall be entitled to an accounting of all profits, compensation, commissions, remunerations or benefits which Executive directly or indirectly has realized and/or may realize as a result of, growing out of or in connection with any such violation and shall be entitled to receive all such amounts to which Company would be entitled as damages under law or at equity. Nothing herein shall be construed as prohibiting Company from pursuing any other legal or equitable remedies that may be available to it for any such breach or threatened breach.

14.2 Executive agrees that in the event he breaches the covenants, or any of them, contained in Sections 11 and 12, then the Non-competition Period or Non-solicitation Period, as applicable, shall be automatically extended by the length of time any such breach remains continuing.

14.3 Executive hereby expressly acknowledges and agrees as follows:

(a) that he has read the covenants set forth above in Sections 11, 12 and 13, has had an opportunity to discuss them with an attorney and that such covenants are reasonable in all respects and are necessary to protect the legitimate business and competitive interests of Company; and

(b) that each of the covenants set forth in Sections 11, 12 and 13 and the subdivisions thereof are separately and independently given, and each such covenant is intended to be enforceable separately and independently of the other such covenants, including, without limitation, enforcement by injunction without the necessity of proving actual damages or posting any bond or other security; provided, however, that the invalidity or unenforceability of this Restated Agreement in any respect shall not affect the validity or enforceability of this Restated Agreement in any other respect. In the event that any provision of this Restated Agreement shall be held invalid or unenforceable by a court of competent jurisdiction by reason of the geographic or business scope or the duration thereof or for any other reason, such invalidity or unenforceability shall attach only to the particular aspect of such provision found invalid or unenforceable as applied and shall not affect or render invalid or unenforceable any other provision of this Restated Agreement or the enforcement of such provision in other circumstances, and, to the fullest extent permitted by law, this Restated Agreement shall be construed as if the geographic or business scope or the duration of such provision or other basis on which such provision has been challenged had been more narrowly drafted so as not to be invalid or unenforceable.

7

14.4 Nothing in Sections 11 and 12 shall prohibit Executive from being (i) a stockholder in a mutual fund or a diversified investment company or (ii) an owner of not more than two percent of the outstanding stock of any class of a corporation, any securities of which are publicly traded, so long as Executive has no active participation in the business of such corporation.

15. General Provisions.

15.1 Successors and Assigns. The rights and obligations of Company under this Restated Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Company. Executive shall not be entitled to assign any of Executive's rights or obligations under this Agreement.

15.2 Waiver. Either party's failure to enforce any provision of this Restated Agreement shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Restated Agreement.

15.3 Attorneys' Fees. Each side will bear its own attorneys' fees in any dispute unless a statutory section at issue, if any, authorizes the award of attorneys' fees to the prevailing party.

15.4 Severability. In the event any provision of this Restated Agreement is found to be unenforceable by a court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

15.5 Interpretation; Construction. The headings set forth in this Restated Agreement are for convenience only and shall not be used in interpreting this Restated Agreement. This Restated Agreement has been drafted by legal counsel representing Company, but Executive has participated in the negotiation of its terms. Furthermore, Executive acknowledges that Executive has had an opportunity to review and revise the Restated Agreement and have it reviewed by legal counsel, if desired, and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Restated Agreement.

15.6 Governing Law. This Restated Agreement will be governed by and construed in accordance with the laws of the United States and the State of Illinois. Each party consents to the jurisdiction and venue of the state or federal courts in Chicago, Illinois, if applicable, in any action, suit, or proceeding arising out of or relating to this Restated Agreement.

15.7 Notices. Any notice required or permitted by this Restated Agreement shall be in writing and shall be delivered as follows with notice deemed given as indicated: (a) by personal delivery when delivered personally; (b) by overnight courier upon written verification of receipt; (c) by telecopy or facsimile transmission upon acknowledgment of receipt

8

of electronic transmission; or (d) by certified or registered mail, return receipt requested, upon verification of receipt. All notices shall be addressed as follows:

EXECUTIVE:

Steven R. Beauchamp
26921 Countryside Lake Drive
Mundelein, Illinois 60060

COMPANY:

Paylocity Corporation
3850 N. Wilke Rd.
Arlington Heights, IL 60004
Attention: Steven I. Sarowitz, Executive Chairman

with a copy to:

DLA Piper LLP
401 Congress Avenue, Suite 2500
Austin, TX 78701
Facsimile: (512) 721- 2290
Attention: John J. Gilluly III, P.C.

or at such changed addresses as the parties may designate in writing.

15.8 Survival. Sections 10 (“No Conflict of Interest”), 11 (“Non-Competition”), 12 (“Non-Solicitation”), 13 (“Nondisclosure of Confidential Information”) 14 (“Enforcement, Remedies and Construction”), 15 (“General Provisions”) and 16 (“Entire Agreement”) of this Restated Agreement shall survive Executive’s employment by Company.

16. Entire Agreement. This Restated Agreement constitutes the entire agreement between the parties relating to this subject matter and supersedes all prior or simultaneous representations, discussions, negotiations, and agreements, whether written or oral. This Restated Agreement may be amended or modified only with the written consent of Executive and the Board of Directors of Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

[Signatures appear on following page]

THE PARTIES TO THIS RESTATED AGREEMENT HAVE READ THE FOREGOING RESTATED AGREEMENT AND FULLY UNDERSTAND EACH AND EVERY PROVISION CONTAINED HEREIN. WHEREFORE, THE PARTIES HAVE EXECUTED THIS RESTATED AGREEMENT ON THE DATES SHOWN BELOW.

Steven R. Beauchamp

Dated: February 7, 2014

/s/Steven R. Beauchamp

Paylocity Corporation

Dated: February 7, 2014

By: /s/Steven I Sarowitz
Name: Steven I. Sarowitz
Title: Executive Chairman

**SECOND AMENDED AND RESTATED
EXECUTIVE EMPLOYMENT AGREEMENT**

This Second Amended and Restated Executive Employment Agreement ("**Restated Agreement**"), which shall amend and restate in its entirety the Employment Agreement by and between Paylocity Corporation, an Illinois corporation ("**Company**") and Michael Haske ("**Executive**") dated as of October 4, 2007 ("**Original Agreement**") as previously amended in an the Amended and Restated Employment Agreement dated May 14, 2008, as amended further by the First Amendment to Amended and Restated Employment Agreement dated December 4, 2013 (collectively, the "**First Amended Agreement**"), is made and entered into by the Company and Executive effective as of February 7, 2014 (the "**Effective Date**").

WHEREAS, Section 12(d) of the First Amended Agreement provides that it may be amended or modified only with a written instrument executed by all parties.

WHEREAS, the Board of Directors of the Company ("**Board**") has determined, and the undersigned parties hereto agree, that it is in the best interest of the Company and its stockholders to amend and restate the First Amended Agreement in its entirety to clarify certain terms and conditions of employment of Executive as set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained in this Restated Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Company hereby agree as follows:

1. **Employment.** Company hereby employs Executive, and Executive hereby accepts such employment, upon the terms and conditions set forth herein.

2. **Duties.**

2.1 **Position.** Executive is employed as Senior Vice President of Sales and Marketing and shall have the duties and responsibilities assigned by Company's President and Chief Executive Officer ("**CEO**"). Executive shall perform faithfully and diligently all duties assigned to Executive. Company reserves the right to modify Executive's position and duties at any time in its sole and absolute discretion.

2.2 **Best Efforts/Full-time.** Executive will expend Executive's best efforts on behalf of Company, and will abide by all policies and decisions made by Company, as well as all applicable federal, state and local laws, regulations or ordinances. Executive will act in the best interest of Company at all times. Executive shall devote Executive's full business time and efforts to the performance of Executive's assigned duties for Company, unless Executive notifies the CEO in advance of Executive's intent to engage in other paid work and receives the CEO's express written consent to do so. Notwithstanding the foregoing, Executive will be permitted to serve as an outside director on the board of directors for nonprofit or charitable entities or managing Executive's personal financial and legal affairs, so long as the foregoing activities, provided such entities are not competitive with Company and subject to the provisions of section 10 below.

1

2.3 **Work Location.** Executive's principal place of work shall be located in Arlington Heights, Illinois, or such other location as Company may direct from time to time in connection with the performance of Executive's duties.

3. **At-Will Employment.** Executive's employment with Company is at-will and not for any specified period and may be terminated at any time, with or without cause (as defined below) or advance notice, by either Executive or Company, subject to the provisions regarding termination set forth below in section 7. No representative of Company, other than the CEO, has the authority to alter the at-will employment relationship. Any change to the at-will employment relationship must be by specific, written agreement signed by Executive and the CEO. Nothing in this Restated Agreement is intended to or should be construed to contradict, modify or alter this at-will relationship.

4. **Compensation.**

4.1 **Base Salary.** As compensation for Executive's performance of Executive's duties hereunder, for fiscal year 2014, Company shall pay to Executive an annualized base salary of \$258,000, less required deductions for state and federal withholding tax, social security and all other employment taxes and payroll deductions, payable in accordance with the normal payroll practices of Company. In the event Executive's employment under this Restated Agreement is terminated by either party, for any reason, Executive will earn the base salary prorated to the date of termination.

4.2 **Incentive Compensation.** Executive will be eligible to earn an annual incentive bonus of up to of up to twenty (20%) percent of Executive's base salary ("**Annual Bonus**") based on Executive achieving a minimum acceptable performance standard based on two key objectives set at the start of each year for sales growth and productivity (expense to revenue ratios) for the sales year ending June 30th and payable by August 15th of the next sales year.

4.3 **Override Bonus.** Executive shall also be entitled to receive a bonus based on the commissionable sales by all sale personnel ("**Override Bonus**"), less all required taxes and deductions, payable monthly based on the prior month's sales. The formula for the Override Bonus will be communicated to Executive in writing on an annual basis. Employer reserves the right to amend, adjust, or revise the calculation of the Override Bonus on a prospective basis, effective upon written notice provided to Executive.

4.4 **Acceleration of Equity Incentive Grants.** Company and/or Paylocity Holding Corporation, Company's parent ("**Parent**") has previously granted or may in the future grant to Executive equity awards subject to time-based vesting in connection with his employment. Immediately prior to the consummation of a Change in Control, the vesting of all unvested shares subject to outstanding equity awards with time-based vesting issued to Executive by Company and/or Parent shall be accelerated in full and, if applicable, such equity awards shall become exercisable or shall be settled in full immediately prior to such Change in Control provided that Executive's employment with Company or Parent has not terminated prior to such Change in Control. For the purposes of this Restated Agreement, "**Change in Control**" shall mean (i) the acquisition by any person, entity or "group" (within the meaning of Section 13(d)(3)

2

or 14(d)(2) of the Exchange Act) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then outstanding equity interests in Parent or the combined voting power of Parent's then outstanding voting securities; or (ii) the consummation of a reorganization, merger or consolidation of Parent or the sale of all or substantially all of the assets of Parent, in each case with respect to which persons who held equity interests in Parent immediately prior to such reorganization, merger, consolidation or sale do not immediately thereafter own, directly or indirectly, 50% or more of the combined voting power of the then outstanding securities of the surviving or resulting corporation or other entity; provided, however, that any such transaction consummated in connection with, or for the purpose of facilitating, an initial public offering shall not constitute a Change in Control hereunder; provided further, however, that a Change in Control shall not include a transaction undertaken for the principal purpose of restructuring the capital of Parent, including, but not limited to, reincorporating Parent in a different jurisdiction, converting Parent to a limited liability company or creating a holding company. Notwithstanding the foregoing, a Change in Control shall not occur for purposes of this Restated Agreement unless such Change in Control constitutes a "change in control event" under Section 409A of the Code and the regulations thereunder.

5. Customary Fringe Benefits. Executive will be eligible for all customary and usual fringe benefits generally available to Executives of Company subject to the terms and conditions of Company's benefit plan documents. Company reserves the right to change or eliminate the fringe benefits on a prospective basis, at any time, effective upon notice to Executive.

6. Business Expenses. Executive will be reimbursed for all reasonable, out-of-pocket business expenses incurred in the performance of Executive's duties on behalf of Company. To obtain reimbursement, expenses must be submitted promptly with appropriate supporting documentation and will be reimbursed in accordance with Company's policies. Any reimbursement Executive is entitled to receive shall (a) be paid no later than the last day of Executive's tax year following the tax year in which the expense was incurred, (b) not be affected by any other expenses that are eligible for reimbursement in any tax year and (c) not be subject to liquidation or exchange for another benefit.

7. Termination of Executive's Employment.

7.1 Termination for Cause by Company. Company may terminate Executive's employment immediately at any time for Cause. For purposes of this Agreement, "**Cause**" is defined as: (i) material dishonest or fraudulent behavior, or convictions of a felony; (ii) the material breach of any covenant contained or referred to in this Agreement; (iii) the failure of Executive to meet fair and reasonable performance standards established by Company from time to time; (iv) Executive's failure or refusal to perform specific directives of Company's Board or CEO, which directives are consistent with the scope and nature of Executive's duties and responsibilities, and which are not remedied by Executive within thirty (30) days after written notice; (v) any violation of the covenant not to disclose confidential information regarding the business of Company and its products as set forth in Section 7 of this Restated Agreement; or (vi) any act of material dishonesty by Executive which adversely affects the business of Company. In the event Executive's employment is terminated in accordance with this subsection 7.1, Executive shall be entitled to receive only Executive's base salary then in

3

effect, prorated to the date of termination and all benefits accrued through the date of termination ("**Accrued Benefits**"). All other Company obligations to Executive pursuant to this Restated Agreement will become automatically terminated and completely extinguished. Executive will not be entitled to receive the Severance Payment described in subsection 7.2 below.

7.2 Termination Without Cause by Company/Severance. Company may terminate Executive's employment under this Agreement without Cause at any time on thirty (30) days' advance written notice to Executive. In the event of such termination, Executive will receive Executive's Base Salary then in effect, prorated to the date of termination, and Accrued Benefits. In addition, Executive will receive a "**Severance Payment**" equivalent to twelve (12) months of Executive's base salary then in effect on the date of termination, payable as salary continuation in accordance with Company's regular payroll cycle over a twelve (12) month period, beginning on the first regular payday occurring 60 days following the termination date. Executive will only receive the Severance Payment if Executive executes a full general release in a form acceptable to Company, releasing all claims, known or unknown, that Executive may have against Company arising out of or any way related to Executive's employment or termination of employment with Company, and such release has become effective in accordance with its terms prior to the 60th day following the termination date. All other Company obligations to Executive will be automatically terminated and completely extinguished. If Executive's employment with Company terminates due to Executive's death or Executive's inability to perform the essential functions of Executive's position with or without reasonable accommodation, Executive shall not be entitled to the Severance Payment described above.

7.3 Voluntary Resignation by Executive. Executive may voluntarily resign Executive's position with Company at any time on thirty (30) days' advance written notice. In the event of Executive's voluntary resignation, Executive will be entitled to receive only Accrued Benefits for the thirty-day notice period and no other amount. All other Company obligations to Executive pursuant to this Restated Agreement will become automatically terminated and completely extinguished. In addition, Executive will not be entitled to receive the Severance Payment described in subsection 7.2 above.

8. Resignation of Board or Other Positions. Upon the termination of Executive's employment for any reason, Executive agrees to immediately resign all other positions (including Board membership) Executive may hold on behalf of Company.

9. Application of Section 409A.

(a) Notwithstanding anything set forth in this Restated Agreement to the contrary, no amount payable pursuant to this Restated Agreement which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the "**Section 409A Regulations**") shall be paid unless and until Executive has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that Executive is a "specified employee" within the meaning of the Section 409A Regulations as of the date of Executive's separation from service, no amount that constitutes a deferral of compensation which is payable on account of Executive's separation from service shall be paid to Executive before the date (the "**Delayed**

4

Payment Date") which is first day of the seventh month after the date of Executive's separation from service or, if earlier, the date of Executive's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

(b) Company intends that income provided to Executive pursuant to this Restated Agreement will not be subject to taxation under Section 409A of the Code. The provisions of this Restated Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Code. **However, Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Restated Agreement.** In any event, except for Company's responsibility to withhold applicable income and employment taxes from compensation paid or provided to Executive, Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to Executive pursuant to this Restated Agreement.

(c) Notwithstanding anything herein to the contrary, the reimbursement of expenses or in-kind benefits provided pursuant to this Restated Agreement shall be subject to the following conditions: (1) the expenses eligible for reimbursement or in-kind benefits in one taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits in any other taxable year; (2) the reimbursement of eligible expenses or in-kind benefits shall be made promptly, subject to Company's applicable policies, but in no event later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(d) For purposes of Section 409A of the Code, the right to a series of installment payments under this Restated Agreement shall be treated as a right to a series of separate payments.

10. **No Conflict of Interest.** During the term of Executive's employment with Company, Executive must not engage in any work, paid or unpaid, or other activities that create a conflict of interest. Such work and/or activities shall include, but is not limited to, directly or indirectly competing with Company in any way, or acting as an officer, director, employee, consultant, stockholder, volunteer, lender, or agent of any business enterprise of the same nature as, or which is in direct competition with, the business in which Company is now engaged or in which Company becomes engaged during the term of Executive's employment with Company, as may be determined by Company in its sole discretion. If Company believes such a conflict exists during the term of this Restated Agreement, Company may ask Executive to choose to discontinue the other work and/or activities or resign employment with Company.

11. **Non-Competition.** Executive agrees that during Executive's employment with Company and for a period of twelve (12) months immediately following termination of such employment for any reason (the "**Non-competition Period**"), Executive shall not in any manner, directly or indirectly, through any person, firm or corporation, alone or as a member of a partnership or as an officer, director, stockholder, investor or employee of or consultant to any other corporation or enterprise or otherwise, engage or be engaged, or assist any other person, firm, corporation or enterprise in engaging or being engaged, in any business, in which

5

Executive was involved or had knowledge, being conducted by, or contemplated by, Company or any of its subsidiaries as of the termination of Executive's employment in any geographic area in which Company or any of its subsidiaries is then conducting such business.

12. **Non-Solicitation.** Executive acknowledges that Company's relationship with its clients, employees, vendors, suppliers and other persons with whom Company has a business relationship (hereinafter referred to as "**Prohibited Persons**"), are special and unique, and that Company's relationship with the Prohibited Persons may not be able to be replaced by Company. Executive further acknowledges that the protection of Company's Prohibited Persons is essential. Therefore, Executive expressly covenants and agrees that during Executive's employment with Company and for a period of twelve (12) months immediately following termination of Executive's employment for any reason (the "**Non-solicitation Period**"), Executive will not at any time for himself or on behalf of any other person, firm, partnership or corporation: (1) induce, or attempt to induce, any Prohibited Persons either to refrain, or to cease doing business with Company; or (2) directly or indirectly solicit, hire, induce or otherwise engage a Prohibited Person in any competitive business.

13. **Nondisclosure of Confidential Information.**

13.1 Executive recognizes that the knowledge and information about, and relationships with business associates, customers, clients and agents of Company and its affiliated companies, and the business methods, systems, plans, and policies of Company and of its affiliated companies, which Executive may receive, obtain, or establish as an employee of Company are valuable and unique assets of Company or its affiliates. Executive agrees that, during any Employment Period and thereafter, Executive shall not disclose or remove, without the written consent of Company, (i) any material or substantial, confidential, or proprietary know-how, data, or information, including, but not limited to software, data, information relating to customers, pricing, safety manuals, training manuals, Quality Assurance/Quality Control manuals, mandatory processes and means or techniques pertaining to Company or its affiliates, and (ii) any business plans, strategies, targets, or directives, to any person, firm, corporation, or any other entity, for any reason or purpose whatsoever. Executive acknowledges and agrees that all memoranda, notes, records, clients lists, client information and other documents, computer software, data or material in any form made or compiled by Executive or made available to Executive concerning Company's business is and shall be Company's exclusive property and shall be delivered by Executive to Company upon termination of Executive's employment or at any other time upon the request of Company.

13.2 The restrictions in the above paragraph shall not apply to: (1) information that at the time of disclosure is in the public domain through no fault of Executive's; (2) information received from a third party outside of Company that was disclosed without a breach of any confidentiality obligation; (3) information approved for release by written authorization of Company; or (4) information that may be required by law or an order of any court, agency or proceeding to be disclosed. Executive shall provide Company notice of any such required disclosure once Executive has knowledge of it and will help Company to the extent reasonable to obtain an appropriate protective order.

6

13.3 Company acknowledges that Executive has had significant prior work experience in the industry in which Company is engaged, and that Executive enters into this Restated Agreement with significant prior knowledge, information and relationships in such industry.

14. **Enforcement: Remedies, Construction.**

14.1 Executive covenants, agrees, and recognizes the breach or threatened breach of the covenants, or any of them, contained in Sections 11, 12 and 13 will result in immediate and irreparable injury to Company and that Company shall be entitled to an injunction restraining Executive or any of his affiliates from any violation of Sections 11, 12 and 13 to the fullest extent allowed by law. Executive further covenants and agrees that in the event of a violation of any of his respective covenants and agreements contained in Sections 11, 12 and 13 hereof, Company shall be entitled to an accounting of all profits, compensation, commissions, remunerations or benefits which Executive directly or indirectly has realized and/or may realize as a result of, growing out of or in connection with any such violation and shall be entitled to receive all such amounts to which Company would be entitled as damages under law or at equity.

Nothing herein shall be construed as prohibiting Company from pursuing any other legal or equitable remedies that may be available to it for any such breach or threatened breach.

14.2 Executive agrees that in the event he breaches the covenants, or any of them, contained in Sections 11 and 12, then the Non-competition Period or Non-solicitation Period, as applicable, shall be automatically extended by the length of time any such breach remains continuing.

14.3 Executive hereby expressly acknowledges and agrees as follows:

(a) that he has read the covenants set forth above in Sections 11, 12 and 13, has had an opportunity to discuss them with an attorney and that such covenants are reasonable in all respects and are necessary to protect the legitimate business and competitive interests of Company; and

(b) that each of the covenants set forth in Sections 11, 12 and 13 and the subdivisions thereof are separately and independently given, and each such covenant is intended to be enforceable separately and independently of the other such covenants, including, without limitation, enforcement by injunction without the necessity of proving actual damages or posting any bond or other security; provided, however, that the invalidity or unenforceability of this Restated Agreement in any respect shall not affect the validity or enforceability of this Restated Agreement in any other respect. In the event that any provision of this Restated Agreement shall be held invalid or unenforceable by a court of competent jurisdiction by reason of the geographic or business scope or the duration thereof or for any other reason, such invalidity or unenforceability shall attach only to the particular aspect of such provision found invalid or unenforceable as applied and shall not affect or render invalid or unenforceable any other provision of this Restated Agreement or the enforcement of such provision in other circumstances, and, to the fullest extent permitted by law, this Restated Agreement shall be construed as if the geographic or business scope or the duration of such provision or other basis

7

on which such provision has been challenged had been more narrowly drafted so as not to be invalid or unenforceable.

14.4 Nothing in Sections 10 and 11 shall prohibit Executive from being (i) a stockholder in a mutual fund or a diversified investment company or (ii) an owner of not more than two percent of the outstanding stock of any class of a corporation, any securities of which are publicly traded, so long as Executive has no active participation in the business of such corporation.

15. General Provisions.

15.1 Successors and Assigns. The rights and obligations of Company under this Restated Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Company. Executive shall not be entitled to assign any of Executive's rights or obligations under this Restated Agreement.

15.2 Waiver. Either party's failure to enforce any provision of this Restated Agreement shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Restated Agreement.

15.3 Attorneys' Fees. Each side will bear its own attorneys' fees in any dispute unless a statutory section at issue, if any, authorizes the award of attorneys' fees to the prevailing party.

15.4 Severability. In the event any provision of this Restated Agreement is found to be unenforceable by a court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

15.5 Interpretation; Construction. The headings set forth in this Restated Agreement are for convenience only and shall not be used in interpreting this Restated Agreement. This Restated Agreement has been drafted by legal counsel representing Company, but Executive has participated in the negotiation of its terms. Furthermore, Executive acknowledges that Executive has had an opportunity to review and revise the Restated Agreement and have it reviewed by legal counsel, if desired, and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Restated Agreement.

15.6 Governing Law. This Restated Agreement will be governed by and construed in accordance with the laws of the United States and the State of Illinois. Each party consents to the jurisdiction and venue of the state or federal courts in Chicago, Illinois, if applicable, in any action, suit, or proceeding arising out of or relating to this Restated Agreement.

8

15.7 Notices. Any notice required or permitted by this Restated Agreement shall be in writing and shall be delivered as follows with notice deemed given as indicated: (a) by personal delivery when delivered personally; (b) by overnight courier upon written verification of receipt; (c) by telecopy or facsimile transmission upon acknowledgment of receipt of electronic transmission; or (d) by certified or registered mail, return receipt requested, upon verification of receipt. All notices shall be addressed as follows:

EXECUTIVE:

Michael Haske
180 W. Benton Ave #306
Naperville, IL 60540

COMPANY:

Paylocity Corporation
3850 N. Wilke Rd.

with a copy to:

DLA Piper LLP
401 Congress Avenue, Suite 2500
Austin, TX 78701
Facsimile: (512) 721- 2290
Attention: John J. Gilluly III, P.C.

or at such changed addresses as the parties may designate in writing.

15.8 Survival. Sections 10 (“No Conflict of Interest”), 1 (“Non-Competition”), 12 (“Non-Solicitation”), 13 (“Nondisclosure of Confidential Information”) 14 (“Enforcement, Remedies and Construction”), 15 (“General Provisions”) and 16 (“Entire Agreement”) of this Restated Agreement shall survive Executive’s employment by Company.

16. Entire Agreement. This Restated Agreement constitutes the entire agreement between the parties relating to this subject matter and supersedes all prior or simultaneous representations, discussions, negotiations, and agreements, whether written or oral. This Restated Agreement may be amended or modified only with the written consent of Executive and the Board of Directors of Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

[Signatures appear on following page]

THE PARTIES TO THIS RESTATED AGREEMENT HAVE READ THE FOREGOING RESTATED AGREEMENT AND FULLY UNDERSTAND EACH AND EVERY PROVISION CONTAINED HEREIN. WHEREFORE, THE PARTIES HAVE EXECUTED THIS RESTATED AGREEMENT ON THE DATES SHOWN BELOW.

Michael Haske

Dated: February 7, 2014

/s/Michael Haske

Paylocity Corporation

Dated: February 7, 2014

By: /s/Steven R. Beauchamp
Name: Steven R. Beauchamp
Title: President and Chief Executive Officer

PAYLOCITY HOLDING CORPORATION
2014 EMPLOYEE STOCK PURCHASE PLAN

TABLE OF CONTENTS

		Page
1.	Establishment, Purpose and Term of Plan	1
	1.1 Establishment	1
	1.2 Purpose	1
	1.3 Term of Plan	1
2.	Definitions and Construction	1
	2.1 Definitions	1
	2.2 Construction	5
3.	Administration	5
	3.1 Administration by the Committee	5
	3.2 Authority of Officers	6
	3.3 Power to Adopt Sub-Plans or Varying Terms with Respect to Non-U.S. Employees	6
	3.4 Power to Establish Separate Offerings with Varying Terms	6
	3.5 Policies and Procedures Established by the Company	6
	3.6 Indemnification	7
4.	Shares Subject to Plan	7
	4.1 Maximum Number of Shares Issuable	7
	4.2 Annual Increase in Maximum Number of Shares Issuable	7
	4.3 Adjustments for Changes in Capital Structure	7
5.	Eligibility	8
	5.1 Employees Eligible to Participate	8
	5.2 Exclusion of Certain Stockholders	8
	5.3 Determination by Company	8
6.	Offerings	9
7.	Participation in the Plan	9
	7.1 Initial Participation	9
	7.2 Continued Participation	9
8.	Right to Purchase Shares	10
	8.1 Grant of Purchase Right	10
	8.2 Calendar Year Purchase Limitation	10

TABLE OF CONTENTS
(continued)

		Page
9.	Purchase Price	10
10.	Accumulation of Purchase Price through Payroll Deduction	11
	10.1 Amount of Payroll Deductions	11
	10.2 Commencement of Payroll Deductions	11
	10.3 Election to Decrease or Stop Payroll Deductions	11
	10.4 Administrative Suspension of Payroll Deductions	11
	10.5 Participant Accounts	12
	10.6 No Interest Paid	12
11.	Purchase of Shares	12
	11.1 Exercise of Purchase Right	12
	11.2 Pro Rata Allocation of Shares	13
	11.3 Delivery of Title to Shares	13
	11.4 Return of Plan Account Balance	13
	11.5 Tax Withholding	13
	11.6 Expiration of Purchase Right	13
	11.7 Provision of Reports and Stockholder Information to Participants	13
12.	Withdrawal from Plan	14
	12.1 Voluntary Withdrawal from the Plan	14
	12.2 Return of Plan Account Balance	14
13.	Termination of Employment or Eligibility	14
14.	Effect of Change in Control on Purchase Rights	15
15.	Nontransferability of Purchase Rights	15
16.	Compliance with Securities Law	15
17.	Rights as a Stockholder and Employee	16
18.	Notification of Disposition of Shares	16

19.	Legends	16
20.	Designation of Beneficiary	16
	20.1 Designation Procedure	16
	20.2 Absence of Beneficiary Designation	17
21.	Notices	17

TABLE OF CONTENTS
(continued)

	<u>Page</u>
22. Amendment or Termination of the Plan	17

Paylocity Holding Corporation
2014 Employee Stock Purchase Plan

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 **Establishment.** The Paylocity Holding Corporation 2014 Employee Stock Purchase Plan (the “**Plan**”) is hereby established effective as of the effective date of the initial registration by the Company of its Stock under Section 12 of the Securities Exchange Act of 1934, as amended (the “**Effective Date**”).

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward Eligible Employees of the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan provides such Eligible Employees with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Company intends that the Plan qualify as an “employee stock purchase plan” under Section 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed.

1.3 **Term of Plan.** The Plan shall continue in effect until its termination by the Committee.

2. DEFINITIONS AND CONSTRUCTION.

2.1 **Definitions.** Any term not expressly defined in the Plan but defined for purposes of Section 423 of the Code shall have the same definition herein. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) “**Board**” means the Board of Directors of the Company.

(b) “**Change in Control**” means the occurrence of any one or a combination of the following:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as such term is defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total Fair Market Value or total combined voting power of the Company’s then-outstanding securities entitled to vote generally in the election of Directors; provided, however, that a Change in Control shall not be deemed to have occurred if such degree of beneficial ownership results from any of the following: (A) an acquisition by any person who on the Effective Date is the beneficial owner of more than fifty percent (50%) of such voting power, (B) any acquisition directly from the Company, including, without limitation, pursuant to or in connection with a public offering of securities, (C) any acquisition by the Company, (D) any acquisition by a trustee or other fiduciary under an employee benefit plan of a Participating Company or (E) any acquisition by an entity owned

directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or

(ii) an Ownership Change Event or series of related Ownership Change Events (collectively, a “**Transaction**”) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of Directors or, in the case of an Ownership Change Event described in Section 2.1(p)(iii), the entity to which the assets of the Company were transferred (the “**Transferee**”), as the case may be; or

(iii) a date specified by the Committee following approval by the stockholders of a plan of complete liquidation or dissolution of the Company;

provided, however, that a Change in Control shall be deemed not to include a transaction described in subsections (i) or (ii) of this Section 2.1(b) in which a majority of the members of the board of directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of Incumbent Directors.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall determine whether multiple events described in subsections (i), (ii) and (iii) of this Section 2.1(b) are related and to be treated in the aggregate as a single Change in Control, and its determination shall be final, binding and conclusive.

(c) “**Code**” means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(d) “**Committee**” means the Compensation Committee and such other committee or subcommittee of the Board, if any, duly appointed to administer the Plan and having such powers in each instance as shall be specified by the Board. If, at any time, there is no committee of the Board then authorized or properly constituted to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

(e) “**Company**” means Paylocity Holding Corporation, a Delaware corporation, or any successor corporation thereto.

(f) “**Compensation**” means, with respect to any Offering Period, regular base wages or salary, overtime payments, shift premiums, payments for paid time off, payments in lieu of notice, annual or other incentive bonuses, commissions, profit-sharing distributions and other incentive-type payments, calculated before deduction of (i) any income or employment tax withholdings or (ii) any amounts deferred under any program or plan, including, without limitation, pursuant to Section 401(k) or Section 125 of the Code. Compensation shall be limited to amounts actually payable in cash or deferred during the Offering Period. Compensation shall not include (i) sign-on bonuses, (ii) any contributions made by a

2

Participating Company on the Participant’s behalf to any employee benefit or welfare plan now or hereafter established (other than amounts deferred pursuant to Section 401(k) or Section 125 of the Code), (iii) payments pursuant to a severance agreement, termination pay, moving allowances, relocation payments, or (iv) any amounts directly or indirectly paid pursuant to the Plan or any other stock purchase, stock option or other stock-based compensation plan, or any other compensation not expressly included by this Section.

(g) “**Eligible Employee**” means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan.

(h) “**Employee**” means a person treated as an employee of a Participating Company for purposes of Section 423 of the Code. A Participant shall be deemed to have ceased to be an Employee either upon an actual termination of employment or upon the corporation employing the Participant ceasing to be a Participating Company. For purposes of the Plan, an individual shall not be deemed to have ceased to be an Employee while on any military leave, sick leave, or other bona fide leave of absence approved by the Company of ninety (90) days or less. If an individual’s leave of absence exceeds ninety (90) days, the individual shall be deemed to have ceased to be an Employee on the ninety-first (91st) day of such leave unless the individual’s right to reemployment with the Participating Company Group is guaranteed either by statute or by contract.

(i) “**Fair Market Value**” means, as of any date:

(i) If, on such date, the Stock is listed or quoted on a national or regional securities exchange or quotation system, the closing price of a share of Stock as quoted on the national or regional securities exchange or quotation system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or quotation system, the date on which the Fair Market Value is established shall be the last day on which the Stock was so traded or quoted prior to the relevant date, or such other appropriate day as determined by the Committee, in its discretion.

(ii) If, on the relevant date, the Stock is not then listed on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock shall be as determined in good faith by the Committee.

(j) “**Incumbent Director**” means a director who either (i) is a member of the Board as of the Effective Date or (ii) is elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but excluding a director who was elected or nominated in connection with an actual or threatened proxy contest relating to the election of directors of the Company).

(k) “**Non-United States Offering**” means a separate Offering covering Eligible Employees of one or more Participating Companies whose Eligible Employees are subject to a prohibition under applicable law on payroll deductions, as described in Section 11.1(b).

3

(l) “**Offering**” means an offering of Stock pursuant to the Plan, as provided in Section 6.

(m) “**Offering Date**” means, for any Offering Period, the first day of such Offering Period.

(n) “**Offering Period**” means a period, established by the Committee in accordance with Section 6, during which an Offering is outstanding.

(o) “**Officer**” means any person designated by the Board as an officer of the Company.

(p) “**Ownership Change Event**” means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of Directors; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

(q) “**Parent Corporation**” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(r) “**Participant**” means an Eligible Employee who has become a participant in an Offering Period in accordance with Section 7 and remains a participant in accordance with the Plan.

(s) “**Participating Company**” means the Company and any Parent Corporation or Subsidiary Corporation designated by the Committee as a corporation the Employees of which may, if Eligible Employees, participate in the Plan. The Committee shall have the discretion to determine

from time to time which Parent Corporations or Subsidiary Corporations shall be Participating Companies. The Committee shall designate from time to time and set forth in Appendix A to this Plan those Participating Companies whose Eligible Employees may participate in the Plan.

(t) “**Participating Company Group**” means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(u) “**Purchase Date**” means, for any Offering Period, the last day of such Offering Period, or, if so determined by the Committee, the last day of each Purchase Period occurring within such Offering Period.

(v) “**Purchase Period**” means a period, established by the Committee in accordance with Section 6, included within an Offering Period and on the final date of which outstanding Purchase Rights are exercised.

4

(w) “**Purchase Price**” means the price at which a share of Stock may be purchased under the Plan, as determined in accordance with Section 9.

(x) “**Purchase Right**” means an option granted to a Participant pursuant to the Plan to purchase such shares of Stock as provided in Section 8, which the Participant may or may not exercise during the Offering Period in which such option is outstanding. Such option arises from the right of a Participant to withdraw any payroll deductions or other funds accumulated on behalf of the Participant and not previously applied to the purchase of Stock under the Plan, and to terminate participation in the Plan at any time during an Offering Period.

(y) “**Registration Date**” means the effective date of the registration on Form S-8 of shares of Stock issuable pursuant to the Plan.

(z) “**Securities Act**” means the Securities Act of 1933, as amended.

(aa) “**Stock**” means the common stock of the Company, as adjusted from time to time in accordance with Section 4.3.

(bb) “**Subscription Agreement**” means a written or electronic agreement, in such form as is specified by the Company, stating an Employee’s election to participate in the Plan and authorizing payroll deductions under the Plan from the Employee’s Compensation or other method of payment authorized by the Committee pursuant to Section 11.1(b).

(cc) “**Subscription Date**” means the last business day prior to the Offering Date of an Offering Period or such earlier date as the Company shall establish.

(dd) “**Subsidiary Corporation**” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

2.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

3. **ADMINISTRATION.**

3.1 **Administration by the Committee.** The Plan shall be administered by the Committee. All questions of interpretation of the Plan, of any form of agreement or other document employed by the Company in the administration of the Plan, or of any Purchase Right shall be determined by the Committee, and such determinations shall be final, binding and conclusive upon all persons having an interest in the Plan or the Purchase Right, unless fraudulent or made in bad faith. Subject to the provisions of the Plan, the Committee shall determine all of the relevant terms and conditions of Purchase Rights; provided, however, that all Participants granted Purchase Rights pursuant to an Offering shall have the same rights and privileges within the meaning of Section 423(b)(5) of the Code. Any and all actions, decisions

5

and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or any agreement thereunder (other than determining questions of interpretation pursuant to the second sentence of this Section 3.1) shall be final, binding and conclusive upon all persons having an interest therein. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

3.2 **Authority of Officers.** Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election that is the responsibility of or that is allocated to the Company herein, provided that the Officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 **Power to Adopt Sub-Plans or Varying Terms with Respect to Non-U.S. Employees.** The Committee shall have the power, in its discretion, to adopt one or more sub-plans of the Plan as the Committee deems necessary or desirable to comply with the laws or regulations, tax policy, accounting principles or custom of foreign jurisdictions applicable to employees of a subsidiary business entity of the Company, provided that any such sub-plan shall not be within the scope of an “employee stock purchase plan” within the meaning of Section 423 of the Code. Any of the provisions of any such sub-plan may supersede the provisions of this Plan, other than Section 4. Except as superseded by the provisions of a sub-plan, the provisions of this Plan shall govern such sub-plan. Alternatively and in order to comply with the laws of a foreign jurisdiction, the Committee shall have the power, in its discretion, to grant Purchase Rights in an Offering to citizens or residents of a non-U.S. jurisdiction (without regard to whether they are also citizens of the United States or resident aliens) that provide terms which are less favorable than the terms of Purchase Rights granted under the same Offering to Employees resident in the United States.

3.4 **Power to Establish Separate Offerings with Varying Terms.** The Committee shall have the power, in its discretion, to establish separate, simultaneous or overlapping Offerings having different terms and conditions and to designate the Participating Company or Companies that may participate in a particular Offering, provided that each Offering shall individually comply with the terms of the Plan and the requirements of Section 423(b)(5) of the Code that all Participants granted Purchase Rights pursuant to such Offering shall have the same rights and privileges within the meaning of such section.

3.5 **Policies and Procedures Established by the Company.** Without regard to whether any Participant's Purchase Right may be considered adversely affected, the Company may, from time to time, consistent with the Plan and the requirements of Section 423 of the Code, establish, change or terminate such rules, guidelines, policies, procedures, limitations, or adjustments as deemed advisable by the Company, in its discretion, for the proper administration of the Plan, including, without limitation, (a) a minimum payroll deduction amount required for participation in an Offering, (b) a limitation on the frequency or number of changes permitted in the rate of payroll deduction during an Offering, (c) an exchange ratio applicable to amounts withheld or paid in a currency other than United States dollars, (d) a payroll deduction greater than or less than the amount designated by a Participant in order to adjust for the Company's delay or mistake in processing a Subscription Agreement or in otherwise effecting a Participant's election under the Plan or as advisable to comply with the requirements of Section 423 of the Code, and (e) determination of the date and manner by which the Fair Market Value of a share of

6

Stock is determined for purposes of administration of the Plan. All such actions by the Company shall be taken consistent with the requirements under Section 423(b)(5) of the Code that all Participants granted Purchase Rights pursuant to an Offering shall have the same rights and privileges within the meaning of such section, except as otherwise permitted by Section 3.3 and the regulations under Section 423 of the Code.

3.6 **Indemnification.** In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, to the extent permitted by applicable law, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. **SHARES SUBJECT TO PLAN.**

4.1 **Maximum Number of Shares Issuable.** Subject to adjustment as provided in Sections 4.2 and 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be one million five hundred thousand (1,500,000) and shall consist of authorized but unissued or reacquired shares of Stock, or any combination thereof. If an outstanding Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of that Purchase Right shall again be available for issuance under the Plan.

4.2 **Annual Increase in Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan as set forth in Section 4.1 shall be cumulatively increased automatically on January 1, 2015 and on each subsequent January 1, through and including January 1, 2024, by a number of shares (the "**Annual Increase**") equal to the smallest of (a) seventy-five one hundredths percent (0.75%) of the number of shares of Stock issued and outstanding on the immediately preceding December 31, (b) 600,000 shares, or (c) an amount determined by the Board.

4.3 **Adjustments for Changes in Capital Structure.** Subject to any required action by the stockholders of the Company and the requirements of Section 424 of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split,

7

split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting regular, periodic cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number and kind of shares subject to the Plan, the Annual Increase, the limit on the shares which may be purchased by any Participant during an Offering (as described in Sections 8.1 and 8.2) and each Purchase Right, and in the Purchase Price in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." If a majority of the shares which are of the same class as the shares that are subject to outstanding Purchase Rights are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "**New Shares**"), the Committee may unilaterally amend the outstanding Purchase Rights to provide that such Purchase Rights are for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Purchase Rights shall be adjusted in a fair and equitable manner as determined by the Committee, in its discretion. Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the Purchase Price be decreased to an amount less than the par value, if any, of the stock subject to the Purchase Right. The adjustments determined by the Committee pursuant to this Section 4.3 shall be final, binding and conclusive.

5. **ELIGIBILITY.**

5.1 **Employees Eligible to Participate.** Each Employee of a Participating Company is eligible to participate in the Plan and shall be deemed an Eligible Employee, except the following:

- (a) Any Employee who is customarily employed by the Participating Company Group for twenty (20) hours or less per week; or
- (b) Any Employee who is customarily employed by the Participating Company Group for not more than five (5) months in any calendar year.

5.2 **Exclusion of Certain Stockholders.** Notwithstanding any provision of the Plan to the contrary, no Employee shall be treated as an Eligible Employee and granted a Purchase Right under the Plan if, immediately after such grant, the Employee would own, or hold options to purchase, stock of the Company or of any Parent Corporation or Subsidiary Corporation possessing five percent (5%) or more of the total combined voting power or value of all

classes of stock of such corporation, as determined in accordance with Section 423(b)(3) of the Code. For purposes of this Section 5.2, the attribution rules of Section 424(d) of the Code shall apply in determining the stock ownership of such Employee.

5.3 **Determination by Company.** The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee or an Eligible Employee and the effective date of such individual's attainment or termination of such status, as the case may be. For purposes of an individual's participation in or

8

other rights, if any, under the Plan as of the time of the Company's determination of whether or not the individual is an Employee, all such determinations by the Company shall be final, binding and conclusive as to such rights, if any, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination as to such individual's status as an Employee.

6. **OFFERINGS.**

The Plan shall be implemented by sequential Offerings of approximately six (6) months' duration or such other duration as the Committee shall determine. Offering Periods shall commence on or about the sixteenth (16th) days of May and November of each year and end on or about the fifteen (15th) days of the next November and May, respectively, occurring thereafter. However, the Offering Date and duration of the initial Offering Period shall be established by the Committee, provided that enrollment in the initial Offering Period shall not commence prior to the Registration Date. Notwithstanding the foregoing, the Committee may establish additional or alternative concurrent, sequential or overlapping Offering Periods, a different duration for one or more Offering Periods or different commencing or ending dates for such Offering Periods; provided, however, that no Offering Period may have a duration exceeding twenty-seven (27) months. If the Committee shall so determine in its discretion, each Offering Period may consist of two (2) or more consecutive Purchase Periods having such duration as the Committee shall specify, and the last day of each such Purchase Period shall be a Purchase Date. If the first or last day of an Offering Period or a Purchase Period is not a day on which the principal stock exchange or quotation system on which the Stock is then listed is open for trading, the Company shall specify the trading day that will be deemed the first or last day, as the case may be, of the Offering Period or Purchase Period.

7. **PARTICIPATION IN THE PLAN.**

7.1 **Initial Participation.** An Eligible Employee may become a Participant in an Offering Period by delivering a properly completed written or electronic Subscription Agreement to the Company office or representative designated by the Company (including a third-party administrator designated by the Company) not later than the close of business on the Subscription Date established by the Company for that Offering Period. An Eligible Employee who does not deliver a properly completed Subscription Agreement in the manner permitted or required on or before the Subscription Date for an Offering Period shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless the Eligible Employee subsequently delivers a properly completed Subscription Agreement to the appropriate Company office or representative on or before the Subscription Date for such subsequent Offering Period. An Employee who becomes an Eligible Employee after the Offering Date of an Offering Period shall not be eligible to participate in that Offering Period but may participate in any subsequent Offering Period provided the Employee is still an Eligible Employee as of the Offering Date of such subsequent Offering Period.

7.2 **Continued Participation.** A Participant shall automatically participate in the next Offering Period commencing immediately after the final Purchase Date of each Offering Period in which the Participant participates provided that the Participant remains an Eligible Employee on the Offering Date of the new Offering Period and has not either (a) withdrawn

9

from the Plan pursuant to Section 12.1, or (b) terminated employment or otherwise ceased to be an Eligible Employee as provided in Section 13. A Participant who may automatically participate in a subsequent Offering Period, as provided in this Section, is not required to deliver any additional Subscription Agreement for the subsequent Offering Period in order to continue participation in the Plan. However, a Participant may deliver a new Subscription Agreement for a subsequent Offering Period in accordance with the procedures set forth in Section 7.1 if the Participant desires to change any of the elections contained in the Participant's then effective Subscription Agreement.

8. **RIGHT TO PURCHASE SHARES.**

8.1 **Grant of Purchase Right.** Except as otherwise provided below, on the Offering Date of each Offering Period, each Participant in such Offering Period shall be granted automatically a Purchase Right consisting of an option to purchase the lesser of (a) that number of whole shares of Stock determined by dividing the Dollar Limit (determined as provided below) by the Fair Market Value of a share of Stock on such Offering Date or (b) the Share Limit (determined as provided below). The Committee may, in its discretion and prior to the Offering Date of any Offering Period, (i) change the method of, or any of the foregoing factors in, determining the number of shares of Stock subject to Purchase Rights to be granted on such Offering Date, or (ii) specify a maximum aggregate number of shares that may be purchased by all Participants in an Offering or on any Purchase Date within an Offering Period. No Purchase Right shall be granted on an Offering Date to any person who is not, on such Offering Date, an Eligible Employee. For the purposes of this Section, the "**Dollar Limit**" shall be determined by multiplying \$2,083.33 by the number of months (rounded to the nearest whole month) in the Offering Period and rounding to the nearest whole dollar, and the "**Share Limit**" shall be determined by multiplying two hundred fifty (250) shares by the number of months (rounded to the nearest whole month) in the Offering Period and rounding to the nearest whole share.

8.2 **Calendar Year Purchase Limitation.** Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted a Purchase Right which permits his or her right to purchase shares of Stock under the Plan to accrue at a rate which, when aggregated with such Participant's rights to purchase shares under all other employee stock purchase plans of a Participating Company intended to meet the requirements of Section 423 of the Code, exceeds Twenty-Five Thousand Dollars (\$25,000) in Fair Market Value (or such other limit, if any, as may be imposed by the Code) for each calendar year in which such Purchase Right is outstanding at any time. For purposes of the preceding sentence, the Fair Market Value of shares purchased during a given Offering Period shall be determined as of the Offering Date for such Offering Period. The limitation described in this Section shall be applied in conformance with Section 423(b)(8) of the Code and the regulations thereunder.

9. **PURCHASE PRICE.**

The Purchase Price at which each share of Stock may be acquired in an Offering Period upon the exercise of all or any portion of a Purchase Right shall be established by the Committee; provided, however, that the Purchase Price on each Purchase Date shall not be less than eighty-five percent (85%) of

Purchase Date. Subject to adjustment as provided by the Plan and unless otherwise provided by the Committee, the Purchase Price for each Offering Period shall be eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period or (b) the Fair Market Value of a share of Stock on the Purchase Date.

10. **ACCUMULATION OF PURCHASE PRICE THROUGH PAYROLL DEDUCTION.**

Except as provided in Section 11.1(b) with respect to a Non-United States Offering, shares of Stock acquired pursuant to the exercise of all or any portion of a Purchase Right may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period for which such Purchase Right was granted, subject to the following:

10.1 **Amount of Payroll Deductions.** Except as otherwise provided herein, the amount to be deducted under the Plan from a Participant's Compensation on each pay day during an Offering Period shall be determined by the Participant's Subscription Agreement. The Subscription Agreement shall set forth the percentage of the Participant's Compensation to be deducted on each pay day during an Offering Period in whole percentages of not less than one percent (1%) (except as a result of an election pursuant to Section 10.3 to stop payroll deductions effective following the first pay day during an Offering) or more than ten percent (10%). The Committee may change the foregoing limits on payroll deductions effective as of any Offering Date.

10.2 **Commencement of Payroll Deductions.** Payroll deductions shall commence on the first pay day following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided herein.

10.3 **Election to Decrease or Stop Payroll Deductions.** During an Offering Period, a Participant may elect to decrease the rate of or to stop deductions from his or her Compensation by delivering to the Company office or representative designated by the Company (including a third-party administrator designated by the Company) an amended Subscription Agreement authorizing such change on or before the "Change Notice Date." The "**Change Notice Date**" shall be a date prior to the beginning of the first pay period for which such election is to be effective as established by the Company from time to time and announced to the Participants. A Participant who elects, effective following the first pay day of an Offering Period, to decrease the rate of his or her payroll deductions to zero percent (0%) shall nevertheless remain a Participant in such Offering Period unless the Participant withdraws from the Plan as provided in Section 12.1.

10.4 **Administrative Suspension of Payroll Deductions.** The Company may, in its discretion, suspend a Participant's payroll deductions under the Plan as the Company deems advisable to avoid accumulating payroll deductions in excess of the amount that could reasonably be anticipated to purchase the maximum number of shares of Stock permitted (a) under the Participant's Purchase Right, or (b) during a calendar year under the limit set forth in Section 8.2. Unless the Participant has either withdrawn from the Plan as provided in Section 12.1 or has ceased to be an Eligible Employee, suspended payroll deductions shall be resumed at the rate specified in the Participant's then effective Subscription Agreement either

(i) at the beginning of the next Offering Period if the reason for suspension was clause (a) in the preceding sentence, or (ii) at the beginning of the next Offering Period having a first Purchase Date that falls within the subsequent calendar year if the reason for suspension was clause (b) in the preceding sentence.

10.5 **Participant Accounts.** Individual bookkeeping accounts shall be maintained for each Participant. All payroll deductions from a Participant's Compensation (and other amounts received from a non-United States Participant pursuant to Section 11.1(b)) shall be credited to such Participant's Plan account and shall be deposited with the general funds of the Company. All such amounts received or held by the Company may be used by the Company for any corporate purpose.

10.6 **No Interest Paid.** Interest shall not be paid on sums deducted from a Participant's Compensation pursuant to the Plan or otherwise credited to the Participant's Plan account.

11. **PURCHASE OF SHARES.**

11.1 **Exercise of Purchase Right.**

(a) **Generally.** Except as provided in Section 11.1(b), on each Purchase Date of an Offering Period, each Participant who has not withdrawn from the Plan and whose participation in the Offering has not otherwise terminated before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right the number of whole shares of Stock determined by dividing (a) the total amount of the Participant's payroll deductions accumulated in the Participant's Plan account during the Offering Period and not previously applied toward the purchase of Stock by (b) the Purchase Price. However, in no event shall the number of shares purchased by the Participant during an Offering Period exceed the number of shares subject to the Participant's Purchase Right. No shares of Stock shall be purchased on a Purchase Date on behalf of a Participant whose participation in the Offering or the Plan has terminated before such Purchase Date.

(b) **Purchase by Non-United States Participants for Whom Payroll Deductions Are Prohibited by Applicable Law.** Notwithstanding Section 11.1(a), where payroll deductions on behalf of Participants who are citizens or residents of countries other than the United States (without regard to whether they are also citizens of the United States or resident aliens) are prohibited by applicable law, the Committee may establish a separate Offering (a "**Non-United States Offering**") covering all Eligible Employees of one or more Participating Companies subject to such prohibition on payroll deductions. The Non-United States Offering shall provide another method for payment of the Purchase Price with such terms and conditions as shall be administratively convenient and comply with applicable law. On each Purchase Date of the Offering Period applicable to a Non-United States Offering, each Participant who has not withdrawn from the Plan and whose participation in such Offering Period has not otherwise terminated before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right a number of whole shares of Stock determined in accordance with Section 11.1(a) to the extent of the total amount of the Participant's Plan account balance accumulated during the Offering Period in accordance with

the method established by the Committee and not previously applied toward the purchase of Stock. However, in no event shall the number of shares purchased by a Participant during such Offering Period exceed the number of shares subject to the Participant's Purchase Right. The Company shall refund to a Participant in a Non-United States Offering in accordance with Section 11.4 any excess Purchase Price payment received from such Participant.

11.2 Pro Rata Allocation of Shares. If the number of shares of Stock which might be purchased by all Participants on a Purchase Date exceeds the number of shares of Stock remaining available for issuance under the Plan or the maximum aggregate number of shares of Stock that may be purchased on such Purchase Date pursuant to a limit established by the Committee pursuant to Section 8.1, the Company shall make a pro rata allocation of the shares available in as uniform a manner as practicable and as the Company determines to be equitable. Any fractional share resulting from such pro rata allocation to any Participant shall be disregarded.

11.3 Delivery of Title to Shares. Subject to any governing rules or regulations, as soon as practicable after each Purchase Date, the Company shall issue or cause to be issued to or for the benefit of each Participant the shares of Stock acquired by the Participant on such Purchase Date by means of one or more of the following: (a) by delivering to the Participant evidence of book entry shares of Stock credited to the account of the Participant, (b) by depositing such shares of Stock for the benefit of the Participant with any broker with which the Participant has an account relationship, or (c) by delivering such shares of Stock to the Participant in certificate form.

11.4 Return of Plan Account Balance. Any cash balance remaining in a Participant's Plan account following any Purchase Date shall be refunded to the Participant as soon as practicable after such Purchase Date. However, if the cash balance to be returned to a Participant pursuant to the preceding sentence is less than the amount that would have been necessary to purchase an additional whole share of Stock on such Purchase Date, the Company may retain the cash balance in the Participant's Plan account to be applied toward the purchase of shares of Stock in the subsequent Purchase Period or Offering Period.

11.5 Tax Withholding. At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the federal, state, local and foreign taxes (including social insurance), if any, required to be withheld by any Participating Company upon exercise of the Purchase Right or upon such disposition of shares, respectively. A Participating Company may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

11.6 Expiration of Purchase Right. Any portion of a Participant's Purchase Right remaining unexercised after the end of the Offering Period to which the Purchase Right relates shall expire immediately upon the end of the Offering Period.

11.7 Provision of Reports and Stockholder Information to Participants. Each Participant who has exercised all or part of his or her Purchase Right shall receive, as soon as practicable after the Purchase Date, a report of such Participant's Plan account setting forth

13

the total amount credited to his or her Plan account prior to such exercise, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the cash balance, if any, remaining immediately after such purchase that is to be refunded or retained in the Participant's Plan account pursuant to Section 11.4. The report required by this Section may be delivered in such form and by such means, including by electronic transmission, as the Company may determine. In addition, each Participant shall be provided information concerning the Company equivalent to that information provided generally to the Company's common stockholders.

12. WITHDRAWAL FROM PLAN.

12.1 Voluntary Withdrawal from the Plan. A Participant may withdraw from the Plan by signing and delivering to the Company office or representative designated by the Company (including a third-party administrator designated by the Company) a written or electronic notice of withdrawal on a form provided by the Company for this purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period; provided, however, that if a Participant withdraws from the Plan after a Purchase Date, the withdrawal shall not affect shares of Stock acquired by the Participant on such Purchase Date. A Participant who voluntarily withdraws from the Plan is prohibited from resuming participation in the Plan in the same Offering from which he or she withdrew, but may participate in any subsequent Offering by again satisfying the requirements of Sections 5 and 7.1. The Company may impose, from time to time, a requirement that the notice of withdrawal from the Plan be on file with the Company office or representative designated by the Company for a reasonable period prior to the effectiveness of the Participant's withdrawal.

12.2 Return of Plan Account Balance. Upon a Participant's voluntary withdrawal from the Plan pursuant to Section 12.1, the Participant's accumulated Plan account balance which has not been applied toward the purchase of shares of Stock shall be refunded to the Participant as soon as practicable after the withdrawal, without the payment of any interest, and the Participant's interest in the Plan and the Offering shall terminate. Such amounts to be refunded in accordance with this Section may not be applied to any other Offering under the Plan.

13. TERMINATION OF EMPLOYMENT OR ELIGIBILITY.

Upon a Participant's ceasing, prior to a Purchase Date, to be an Employee of the Participating Company Group for any reason, including retirement, disability or death, or upon the failure of a Participant to remain an Eligible Employee, the Participant's participation in the Plan shall terminate immediately. In such event, the Participant's Plan account balance which has not been applied toward the purchase of shares of Stock shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's beneficiary designated in accordance with Section 20, if any, or legal representative, and all of the Participant's rights under the Plan shall terminate. Interest shall not be paid on sums returned pursuant to this Section 13. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by satisfying the requirements of Sections 5 and 7.1.

14

14. EFFECT OF CHANGE IN CONTROL ON PURCHASE RIGHTS.

In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or parent thereof, as the case may be (the "Acquiring Corporation"), may, without the consent of any Participant, assume or continue the Company's rights and obligations under outstanding Purchase Rights or substitute substantially equivalent purchase rights for the Acquiring Corporation's stock. If the Acquiring Corporation elects not to assume, continue or

substitute for the outstanding Purchase Rights, the Purchase Date of the then current Offering Period shall be accelerated to a date before the date of the Change in Control specified by the Committee, but the number of shares of Stock subject to outstanding Purchase Rights shall not be adjusted. All Purchase Rights which are neither assumed or continued by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control.

15. **NONTRANSFERABILITY OF PURCHASE RIGHTS.**

Neither payroll deductions or other amounts credited to a Participant's Plan account nor a Participant's Purchase Right may be assigned, transferred, pledged or otherwise disposed of in any manner other than as provided by the Plan or by will or the laws of descent and distribution. (A beneficiary designation pursuant to Section 20 shall not be treated as a disposition for this purpose.) Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw from the Plan as provided in Section 12.1. A Purchase Right shall be exercisable during the lifetime of the Participant only by the Participant.

16. **COMPLIANCE WITH SECURITIES LAW.**

The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any securities exchange or market system upon which the Stock may then be listed. In addition, no Purchase Right may be exercised unless (a) a registration statement under the Securities Act shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of a Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

15

17. **RIGHTS AS A STOCKHOLDER AND EMPLOYEE.**

A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the issuance of the shares of Stock purchased pursuant to the exercise of the Participant's Purchase Right (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.3. Nothing herein shall confer upon a Participant any right to continue in the employ of the Participating Company Group or interfere in any way with any right of the Participating Company Group to terminate the Participant's employment at any time.

18. **NOTIFICATION OF DISPOSITION OF SHARES.**

The Company may require the Participant to give the Company prompt notice of any disposition of shares of Stock acquired by exercise of a Purchase Right. The Company may require that until such time as a Participant disposes of shares of Stock acquired upon exercise of a Purchase Right, the Participant shall hold all such shares in the Participant's name until the later of two years after the date of grant of such Purchase Right or one year after the date of exercise of such Purchase Right. The Company may direct that the certificates evidencing shares of Stock acquired by exercise of a Purchase Right refer to such requirement to give prompt notice of disposition.

19. **LEGENDS.**

The Company may at any time place legends or other identifying symbols referencing any applicable federal, state or foreign securities law restrictions or any provision convenient in the administration of the Plan on some or all of the certificates representing shares of Stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include but shall not be limited to the following:

"THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON THE PURCHASE OF SHARES UNDER AN EMPLOYEE STOCK PURCHASE PLAN AS DEFINED IN SECTION 423 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE TRANSFER AGENT FOR THE SHARES EVIDENCED HEREBY SHALL NOTIFY THE CORPORATION IMMEDIATELY OF ANY TRANSFER OF THE SHARES BY THE REGISTERED HOLDER HEREOF. THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE PLAN IN THE REGISTERED HOLDER'S NAME (AND NOT IN THE NAME OF ANY NOMINEE)."

20. **DESIGNATION OF BENEFICIARY.**

20.1 **Designation Procedure.** Subject to local laws and procedures, a Participant may file a written designation of a beneficiary who is to receive (a) shares and cash,

16

if any, from the Participant's Plan account if the Participant dies subsequent to a Purchase Date but prior to delivery to the Participant of such shares and cash, or (b) cash, if any, from the Participant's Plan account if the Participant dies prior to the exercise of the Participant's Purchase Right. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. A Participant may change his or her beneficiary designation at any time by written notice to the Company.

20.2 **Absence of Beneficiary Designation.** If a Participant dies without an effective designation pursuant to Section 20.1 of a beneficiary who is living at the time of the Participant's death, the Company shall deliver any shares or cash credited to the Participant's Plan account to the Participant's legal representative or as otherwise required by applicable law.

21. **NOTICES.**

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. **AMENDMENT OR TERMINATION OF THE PLAN.**

The Committee may at any time amend, suspend or terminate the Plan, except that (a) no such amendment, suspension or termination shall affect Purchase Rights previously granted under the Plan unless expressly provided by the Committee, and (b) no such amendment, suspension or termination may adversely affect a Purchase Right previously granted under the Plan without the consent of the Participant, except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to comply with any applicable law, regulation or rule. In addition, an amendment to the Plan must be approved by the stockholders of the Company within twelve (12) months of the adoption of such amendment if such amendment would authorize the sale of more shares than are then authorized for issuance under the Plan or would change the definition of the corporations that may be designated by the Committee as Participating Companies. Notwithstanding the foregoing, in the event that the Committee determines that continuation of the Plan or an Offering would result in unfavorable financial accounting consequences to the Company, the Committee may, in its discretion and without the consent of any Participant, including with respect to an Offering Period then in progress: (i) terminate the Plan or any Offering Period, (ii) accelerate the Purchase Date of any Offering Period, (iii) reduce the discount or the method of determining the Purchase Price in any Offering Period (e.g., by determining the Purchase Price solely on the basis of the Fair Market Value on the Purchase Date), (iv) reduce the maximum number of shares of Stock that may be purchased in any Offering Period, or (v) take any combination of the foregoing actions.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing sets forth the Paylocity Holding Corporation 2014 Employee Stock Purchase Plan as duly adopted by the Board on February 6, 2014.

/s/ Peter J. McGrail
Peter J. McGrail, Secretary

APPENDIX A

Participating Companies

Paylocity Holding Corporation
Paylocity Corporation, an Illinois corporation

APPENDIX B

FORMS OF
ENROLLMENT/CHANGE NOTICE/WITHDRAWAL FORM
AND
SUBSCRIPTION AGREEMENT

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Paylocity Holding Corporation:

We consent to the use of our report dated December 5, 2013, with respect to the consolidated balance sheets of Paylocity Holding Corporation as of June 30, 2011, 2012 and 2013, and the related consolidated statements of operations, changes in redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended June 30, 2013, incorporated herein by reference, and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KPMG LLP

Chicago, Illinois
February 14, 2014
