UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **May 8, 2014**

PAYLOCITY HOLDING CORPORATION
(Exact name of registrant as specified in charter)

Delaware	**001-36348**	**46-4066644**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

3850 N. Wilke Road
Arlington Heights, Illinois 60004
(Address of principal executive offices, including zip code)

(847) 463-3200
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On May 8, 2014, Paylocity Holding Corporation (the "Company") issued a press release announcing financial results for the three month period ended March 31, 2014 and held a conference call to discuss the Company's financial results. The press release and conference call contain forward-looking statements regarding the Company, and include cautionary statements identifying important factors that could cause actual results to differ materially from those anticipated.

The press release issued May 8, 2014 is furnished herewith as Exhibit 99.1, to this Report and a copy of the Company's conference call script announcing these financial results is furnished herewith as Exhibit 99.2. The information in this Item 2.02, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that Section, nor shall such information be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	**Description**
99.1	Press Release issued by Paylocity Holding Corporation dated May 8, 2014.
99.2	Paylocity Holding Corporation Third Quarter Results Conference Call Script dated May 8, 2014.

SIGNATURES

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

PAYLOCITY HOLDING CORPORATION

Date: May 12, 2014

By: /s/ Peter J. McGrail
Peter J. McGrail
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release issued by Paylocity Holding Corporation dated May 8, 2014.
99.2	Paylocity Holding Corporation Third Quarter Results Conference Call Script dated May 8, 2014.

Exhibit 99.1

Paylocity Announces Third Quarter Fiscal Year 2014 Financial Results

- **Total Revenue of $33.8 million, up 41% year over year**
- **Recurring Revenue of $31.2 million, up 40% year over year**
- **Completed initial public offering raising net proceeds of $82 million**

Arlington Heights, IL. — May 8, 2014 — Paylocity Holding Corporation (Nasdaq: PCTY), a cloud-based provider of payroll and human capital management software solutions, today announced financial results for its third quarter of fiscal year 2014, which ended March 31, 2014.

"Our third quarter results demonstrated that our business continues to perform well across all of our key metrics," said Steve Beauchamp, President and Chief Executive Officer of Paylocity. "The third quarter is always our highest revenue quarter and this year was no exception. However, not only did we see the seasonal boost of high gross margin fees for annual filings, we saw higher demand for our cloud-based, unified payroll and HCM solutions as mid-sized companies seek to leverage their payroll system to more proactively manage their human capital. We believe we are in the early stages of a major market share shift from traditional payroll service providers to cloud-based software and that Paylocity is uniquely positioned to capitalize on this trend in a multi-billion dollar market opportunity."

Beauchamp added, "Our recent IPO was a key milestone for Paylocity which further increases our market profile and provides additional financial resources to execute on our growth initiatives."

Third Quarter 2014 Financial Highlights

Revenue:

- Total revenue was $33.8 million, an increase of 41% from the third quarter of fiscal year 2013.
- Total recurring revenue was $31.2 million, represented 92% of total revenue and increased 40% on a year-over-year basis.

Operating Income:

- GAAP operating income was $2.1 million, compared to operating income of $2.6 million in the third quarter of fiscal year 2013.
- Non-GAAP operating income was $3.5 million, compared to non-GAAP operating income of $2.7 million in the third quarter of fiscal year 2013.

Adjusted EBITDA:

- Adjusted EBITDA, a non-GAAP measure, was $5.2 million for the third quarter of fiscal year 2014 compared to Adjusted EBITDA of $4.2 million for the third quarter of fiscal year 2013.

Net Income:

- GAAP net income was $1.2 million, compared to net income of $2.0 million for the third quarter of fiscal year 2013. On a pro forma basis to reflect the conversion of all outstanding preferred shares as of July 1, 2013, net income per share for the three months ended March 31, 2014 would have been $0.03, based on 44.9 million diluted weighted average common shares outstanding, compared to net income per share of $0.05 for the third quarter of fiscal year 2013, based on 44.4 million diluted weighted average common shares outstanding.
- Non-GAAP net income was $2.0 million compared to $2.1 million in the third quarter of fiscal year 2013. On a pro forma basis, non-GAAP net income per share was $0.04 for the third quarter of fiscal year 2014 based on 44.9 million diluted weighted average common shares outstanding, compared to net income per share of $0.05 for the third quarter of fiscal year 2013, based on 44.4 million diluted weighted average common shares outstanding.

Balance Sheet and Cash Flow:

- Cash and cash equivalents totaled $88.9 million at the end of the quarter. During the quarter, the company issued and sold 5.4 million shares of common stock at $17 per share raising net proceeds of $82 million.
- Cash flow from operations for the nine months ended March 31, 2014 was $8.1 million compared to $5.0 million for the same period in fiscal year 2013.

A reconciliation of GAAP to non-GAAP financial measures has been provided in this press release, including the accompanying tables. An explanation of these measures is also included below under the heading "Non-GAAP Financial Measures."

Business Outlook

Based on information available as of May 8, 2014, Paylocity is issuing guidance for the fourth quarter and full fiscal year 2014 as indicated below.

Fourth Quarter 2014:
- Total revenue is expected to be in the range of $26 million to $27 million.
- Adjusted EBITDA is expected to be a loss in the range of $(2.3) million to $(1.3) million.
- Non-GAAP net loss is expected to be in the range of ($2.8) million to ($1.8) million, or $(0.06) to $(0.04) per share, based on 49.6 million basic weighted average common shares outstanding. This guidance assumes an income tax benefit of approximately $1.2 million.

Fiscal Year 2014:
- Total revenue is expected to be in the range of $106 million to $107 million.
- Adjusted EBITDA is expected to be in the range of $3.4 million to $4.4 million.
- On a pro forma basis to reflect the conversion of all outstanding preferred shares as of July 1, 2013, non-GAAP net loss is expected to be in the range of ($2.2) million to $(1.2) million, or $(0.05) to $(0.03) per share, based on 45.4 million basic weighted average common shares outstanding. This guidance assumes an income tax benefit of approximately $0.8 million.

Conference Call Details

Paylocity will host a conference call to discuss its third quarter results at 4:00 p.m. Central Time today (5:00 Eastern Time). A live audio webcast of the conference call, together with detailed financial information, can be accessed through the company's Investor Relations Web site at http://www.paylocity.com. Participants who choose to call in to the conference call can do so by dialing (315) 625-6892 or (855) 226-3021, passcode 31332532. A replay of the call will be available and archived via webcast at www.paylocity.com.

About Paylocity

Paylocity is a provider of cloud-based payroll and human capital management, or HCM, software solutions for medium-sized organizations. Paylocity's comprehensive and easy-to-use solutions enable its clients to manage their workforces more effectively. Paylocity's solutions help drive strategic human capital decision-making and improve employee engagement by enhancing the human resource, payroll and finance capabilities of its clients. For more information, visit www.paylocity.com.

Non-GAAP Financial Measures

The company uses certain non-GAAP financial measures in this release, including Adjusted EBITDA, adjusted gross profit, adjusted recurring gross profit, non-GAAP operating income, non-GAAP net income and non-GAAP net income per share. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. We define Adjusted EBITDA as net income (loss) before interest expense, taxes, and depreciation and amortization expense, adjusted to eliminate stock-based compensation expense. Adjusted gross profit and adjusted recurring gross profit are adjusted for stock-based compensation expense and amortization of capitalized research and development costs. Non-GAAP operating income, non-GAAP net income and non-GAAP net income per share are adjusted for stock-based compensation expense. Please note that other companies may define their non-GAAP financial measures differently than we do. Management presents certain non-GAAP financial measures in this release because it considers them to be important supplemental measures of performance. Management uses these non-GAAP financial measures for planning purposes, including analysis of the company's performance against prior periods, the preparation of operating budgets and to determine appropriate levels of operating and capital investments. Management believes that these non-GAAP financial measures provide additional insight for analysts and investors in evaluating the company's financial and operational performance. Management also intends to provide these non-GAAP financial measures as part of the company's future earnings discussions and, therefore, the inclusion of the non-GAAP financial measures should provide consistency in the company's financial reporting. Non-GAAP financial measures have limitations as an analytical tool. Investors are encouraged to review the reconciliation of the non-GAAP measures to their most directly comparable GAAP measures provided in this release.

Safe Harbor/forward looking statements

This press release contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included herein regarding Paylocity's future operations, future financial position and performance, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "will," "would," "seek" and similar expressions (or the negative

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of these terms) are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about management's estimates regarding future revenues and financial performance and other statements about management's beliefs, intentions or goals. Paylocity may not actually achieve the expectations disclosed in the forward-looking statements, and you should not place undue reliance on Paylocity's forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results or events to differ materially from the expectations disclosed in the forward-looking statements, including, but not limited to, risks related to Paylocity's ability to attract new clients to enter into subscriptions for its services; Paylocity's ability to service clients effectively; Paylocity's ability to expand its sales organization to effectively address new geographies; Paylocity's ability to continue to expand its referral network of third parties; Paylocity's ability to accurately forecast revenue and appropriately plan its expenses; forecast its tax position, including but not limited to the assessment of the need for a valuation allowance against its deferred tax position; continued acceptance of SaaS as an effective method for delivery of payroll and HCM solutions; Paylocity's ability to protect and defend its intellectual property; unexpected events in the market for Paylocity's solutions; future regulatory, judicial and legislative changes in its industry; changes in the competitive environment in Paylocity's industry and the market in which it operates; and other risks and potential factors that could affect Paylocity's business and financial results identified in Paylocity's filings with the Securities and Exchange Commission (the "SEC"), including its prospectus filed with the SEC pursuant to Rule 424(b)(4) on March 19, 2014. Additional information will also be set forth in Paylocity's future quarterly reports on Form 10-Q, annual reports on Form 10-K and other filings that Paylocity makes with the SEC. These forward-looking statements represent Paylocity's expectations as of the date of this press release. Subsequent events may cause these expectations to change, and Paylocity disclaims any obligations to update or alter these forward-looking statements in the future, whether as a result of new information, future events or otherwise.

Source: Paylocity

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PAYLOCITY HOLDING CORPORATION
Unaudited Consolidated Balance Sheets
(In thousands)

		June 30, 2013		March 31, 2014
Assets				
Current assets:				
Cash and cash equivalents	$	7,594	$	88,944
Accounts receivable, net		740		791
Prepaid expenses and other		1,875		3,160
Taxes receivable		—		131
Deferred income tax assets, net		602		563
Total current assets before funds held for clients		10,811		93,589
Funds held for clients		355,905		541,723
Total current assets		366,716		635,312
Long-term prepaid expenses		—		344
Capitalized software, net		2,614		3,800
Property and equipment, net		8,586		12,142
Total assets	$	377,916	$	651,598
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)				
Current liabilities:				
Current portion of long-term debt	$	625	$	—
Accounts payable		880		3,088
Taxes payable		207		—
Accrued expenses		6,794		10,572
Total current liabilities before client fund obligations		8,506		13,660
Client fund obligations		355,905		541,723
Total current liabilities		364,411		555,383
Long-term debt, net of current portion		938		—
Deferred income tax liabilities, net		269		172
Deferred rent		2,317		2,647
Total liabilities	$	367,935	$	558,202
Redeemable convertible preferred stock, $0.001 par value, 18,000 authorized as of June 30, 2013 and no shares authorized as of March 31, 2014				
Series A, 6% cumulative dividend, 9,500 shares issued and outstanding as of June 30, 2013 and no shares issued and outstanding March 31, 2014		9,339		—
Series B, 8% cumulative dividend, 8,400 shares issued and outstanding at June 30, 2013 and no shares issued and outstanding March 31, 2014		27,234		—
Stockholders' equity (deficit)				
Common stock, $0.001 par value, 66,667 authorized, 31,988 shares issued and outstanding as of June 30, 2013 and 155,000 authorized, 49,564 shares issued and outstanding March 31, 2014		32		50
Preferred stock, $0.001 par value, no shares authorized, issued and outstanding as of June 30, 2013 and 5,000 authorized, no shares issued and outstanding as of March 31, 2014		—		—
Additional paid-in capital		437		120,813
Accumulated deficit		(27,061)		(27,467)
Total stockholders' equity (deficit)		(26,592)		93,396
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	$	377,916	$	651,598

PAYLOCITY HOLDING CORPORATION
Unaudited Consolidated Statements of Operations
(In thousands, except per share data)

	Three months ended March 31,		Nine months ended March 31,	
	2013	2014	2013	2014
Revenues				

Recurring fees	$ 21,824	$ 30,719	$ 52,463	$ 73,602
Interest income on funds held for clients	447	491	1,072	1,222
Total recurring revenues	22,271	31,210	53,535	74,824
Implementation services and other	1,735	2,556	3,497	5,216
Total revenues	24,006	33,766	57,032	80,040
Cost of revenues				
Recurring revenues	7,896	10,246	21,190	27,320
Implementation services and other	2,838	4,679	7,600	12,670
Total cost of revenues	10,734	14,925	28,790	39,990
Gross profit	13,272	18,841	28,242	40,050
Operating expenses				
Sales and marketing	5,888	8,678	13,714	19,290
Research and development	1,852	2,443	4,906	6,746
General and administrative	2,928	5,587	8,722	14,726
Total operating expenses	10,668	16,708	27,342	40,762
Operating income (loss)	2,604	2,133	900	(712)
Other income (expense)	(8)	59	(17)	109
Income (loss) before income taxes	2,596	2,192	883	(603)
Income tax (expense) benefit	(575)	(1,042)	106	197
Net income (loss)	$ 2,021	$ 1,150	$ 989	$ (406)
Net income (loss) attributable to common stockholders	$ 1,294	$ 430	$ (1,192)	$ (2,688)
Net income (loss) per share attributable to common stockholders, basic and diluted	$ 0.03	$ 0.01	$ (0.04)	$ (0.08)
Weighted average number of shares of common stock used in computing net loss per share attributable to common stockholders:				
Basic	43,921	44,360	31,988	32,437
Diluted	44,407	44,870	31,988	32,437

Stock-based compensation included in the above line items:

	Three months ended March 31,		Nine months ended March 31,	
	2013	2014	2013	2014
Cost of revenue - recurring	$ —	$ 113	$ —	$ 113
Cost of revenue - non-recurring	—	97	—	97
Sales and marketing	—	175	—	175
Research and development	—	139	—	139
General and administrative	130	841	392	1,190
Total stock-based compensation	$ 130	$ 1,365	$ 392	$ 1,714

PAYLOCITY HOLDING CORPORATION
Unaudited Consolidated Statements of Cash Flows
(In thousands)

	Nine Months Ended March 31,	
	2013	2014
Cash flows from operating activities:		
Net income (loss)	$ 989	$ (406)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	392	1,714
Depreciation and amortization	4,145	4,544
Deferred income tax benefit	(386)	(58)
Provision for doubtful accounts	45	79
Changes in operating assets and liabilities:		
Increase in accounts receivable	(206)	(130)
Increase in prepaid expenses	(1,547)	(1,629)
Increase in trade accounts payable	203	947
Increase in accrued expenses	1,406	3,016
Net cash provided by operating activities	5,041	8,077
Cash flows from investing activities:		
Capitalized internally developed software costs	(1,115)	(2,919)
Purchases of property and equipment	(2,865)	(4,954)
Net change in funds held for clients	(189,935)	(185,818)
Net cash used in investing activities	(193,915)	(193,691)
Cash flows from financing activities:		
Net change in client funds obligation	189,935	185,818
Principal payments on long-term debt	(1,469)	(1,563)
Proceeds from initial public offering, net of issuance costs	—	82,709
Proceeds from exercise of stock options	76	—
Payments for redemption of Common Shares	(162)	—
Net cash provided by financing activities	188,380	266,964
Net Change in Cash and Cash Equivalents	(494)	81,350

Cash and Cash Equivalents—Beginning of Period	9,031	7,594
Cash and Cash Equivalents—End of Period	$ 8,537	$ 88,944
Supplemental disclosure of non-cash investing and financing activities		
Build-out allowance received from landlord	$ 325	$ 580
Purchases of property and equipment, accrued but not paid	$ 68	$ 784
Unpaid initial offering costs	—	$ 678
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$ 56	$ 202
Cash paid for interest	$ 353	$ 70

Paylocity Holding Corporation
Reconciliation of GAAP to non-GAAP Financial Measures
(In thousands except per share data)

	Three months Ended March 31,		Nine months Ended March 31,	
	2013	2014	2013	2014
Reconciliation from gross profit to adjusted gross profit:				
Gross profit	$ 13,272	$ 18,841	$ 28,242	$ 40,050
Amortization of capitalized research and development costs	751	580	2,346	1,809
Stock-based compensation expense	—	210	—	210
Adjusted gross profit	$ 14,023	$ 19,631	$ 30,588	$ 42,069

	Three months Ended March 31,		Nine months Ended March 31,	
	2013	2014	2013	2014
Reconciliation from total recurring revenues to adjusted recurring gross profit:				
Total recurring revenues	$ 22,271	$ 31,210	$ 53,535	$ 74,824
Cost of recurring revenues	7,896	10,246	21,190	27,320
Recurring gross profit	14,375	20,964	32,345	47,504
Amortization of capitalized research and development costs	751	580	2,346	1,809
Stock-based compensation expense	—	113	—	113
Adjusted recurring gross profit	$ 15,126	$ 21,657	$ 34,691	$ 49,426

	Three months Ended March 31,		Nine months Ended March 31,	
	2013	2014	2013	2014
Reconciliation from operating income (loss) to non-GAAP operating income:				
Operating income (loss)	$ 2,604	$ 2,133	$ 900	$ (712)
Stock-based compensation expense	130	1,365	392	1,714
Non-GAAP operating income	$ 2,734	$ 3,498	$ 1,292	$ 1,002

	Three months Ended March 31,		Nine months Ended March 31,	
	2013	2014	2013	2014
Reconciliation from net income (loss) to Adjusted EBITDA:				
Net income (loss)	$ 2,021	$ 1,150	$ 989	$ (406)
Interest expense	43	22	162	67
Income tax expense (benefit)	575	1,042	(106)	(197)
Depreciation and amortization	1,412	1,620	4,145	4,544
EBITDA	4,051	3,834	5,190	4,008
Stock-based compensation expense	130	1,365	392	1,714
Adjusted EBITDA	$ 4,181	$ 5,199	$ 5,582	$ 5,722

	Three months Ended March 31,		Nine months Ended March 31,	
	2013	2014	2013	2014
Reconciliation from net income (loss) to non-GAAP net income:				
Net income (loss)	$ 2,021	$ 1,150	$ 989	$ (406)
Stock-based compensation expense, net of tax	79	833	240	1,046
Non-GAAP net income	$ 2,100	$ 1,983	$ 1,229	$ 640

	Three months Ended March 31,		Nine months Ended March 31,	
	2013	2014	2013	2014
Calculation of non-GAAP net income per share:				
Non-GAAP net income	$ 2,100	$ 1,983	$ 1,229	$ 640
Pro forma weighted average number of shares of common stock	44,407	44,870	44,407	44,576
Non-GAAP net income per share	$ 0.05	$ 0.04	$ 0.03	$ 0.01

PAYLOCITY 3Q2014 EARNINGS CONFERENCE CALL SCRIPT

Peter McGrail — CFO

Good afternoon and welcome to Paylocity's earnings results call for the third quarter of 2014, which ended on March 31, 2014. I'm Peter McGrail, CFO and joining me on the call today is Steve Beauchamp, Chief Executive Officer of Paylocity. Today we will be discussing the results announced in our press release issued after the market closed. A webcast replay of this call will be available for the next 45 days on our website under the investor relations tab.

Before beginning, we must caution you that today's remarks in this discussion, including statements made during the question and answer session, contain forward-looking statements. These statements are subject to numerous important factors, risks, and uncertainties which could cause actual results to differ from the results implied by these or other forward-looking statements. Also, these statements are based solely on the present information, and are subject to risks and uncertainties that can cause actual results to differ materially from those projected in the forward-looking statements. For additional information, please refer to our prospectus and other Securities and Exchange Commission filings for the risk factors contained therein and other disclosures. We do not undertake any duty to update any forward-looking statements.

Also, during the course of today's call we will refer to certain non-GAAP financial measures. There is a reconciliation schedule detailing these results currently available in our press release, which is located on our website at www.Paylocity.com under the Investor Relations tab and filed with the Securities and Exchange Commission.

With that, let me turn the call over to Steve.

Steve Beauchamp – CEO

Thank You, Peter. I'd like to thank everyone for taking time to join us for our first earnings conference call as a public company. We are here to discuss the strong results from our fiscal third quarter, which ended March 31. Peter will review our financial results in detail, but let me share a few of the highlights up front:

Our third fiscal quarter is always our largest from a revenue and gross profit perspective due to the annual fees we charge for preparation of W-2s and other required tax filings that we process on behalf of our clients. Our third quarter is also a very important quarter for on-boarding new business revenue and I am pleased to report that demand for our cloud-based, unified payroll and HCM solutions was a primary driver of our strong revenue performance

- With $33.8 million in total revenue, we posted 41% growth versus the same quarter last year
- Recurring revenue, which represents 92% of our revenue, grew 40% year over year
- Our revenue retention rate continues to be in excess of 92%, which is best in class for a company targeting mid-sized firms.
- Our third fiscal quarter is the largest quarter for our sales team with many clients preferring to switch solutions at the start of a calendar year. Our sales organization delivered robust revenue growth from new clients.
- While we continue to invest aggressively in product development and sales and marketing, we also generated a small net profit for the quarter.
- Lastly, our balance sheet was strengthened by our IPO which raised net proceeds of over 82 million dollars. Our total cash at the end of the third quarter was approximately 89 million dollars. The increase in our resources provides us with the ability to execute against our strategic growth initiatives and fully capitalize on our market opportunity.

Since this is our first quarter as a public company, I want to briefly review the market opportunity, our differentiated SaaS platform and our go to market strategy.

We deliver cloud-based payroll and human capital management software tailored specifically to the needs of medium-sized companies. We define mid-sized companies as those with 20 — 1,000 employees. We believe we are in the early stages of a major market share shift from traditional payroll service providers to a cloud-based SaaS model — which leverages the payroll system to enable more comprehensive human capital management capabilities. There were 565,000 firms that fit the definition of mid-sized in the U.S. in 2010, and we have less than 2% penetration into that target market. We are a leading vendor of next generation, SaaS-based human capital management solutions targeted at the mid-market, and we believe there is plenty of runway for us to grow for many years. The 40+% growth we delivered in the third quarter was fueled by this shift in spending, as well as the strength of our platform and company-wide execution.

We generally replace traditional payroll systems from the large payroll outsourcers. Over the last 5 years we have experienced shifts in our sales process where 5 years ago we had to *push* the idea of moving to a SaaS-based system to now SaaS being a first requirement. From a long-term perspective, we believe that the strong majority of mid-size companies will move to SaaS-based solutions, and in particular, an integrated suite of payroll and HCM solutions.

We built our multi-tenant software platform called Web Pay so companies could both automate their payroll functions and extend into other HCM applications, such as time and labor tracking, human resources, benefits and talent management from a single unified solution. Our payroll and HCM applications use a unified database and provide robust on-demand reporting and analytics. Our platform also provides intuitive self-service functionality for employees and managers. Starting with a 'must have' process like payroll allows users to more easily expand into other HCM categories - all from a single, SaaS-based software platform.

We have designed our implementation and client service organization to meet the needs of medium-sized organizations who lack the IT and HR resources of larger enterprises. Since our clients often have limited resources, they require an easy to use product and a service model that allows them to quickly deploy our payroll and HCM solutions.

We market and sell our products primarily through our direct sales force. We have a high velocity sales model with a 4 week sales cycles for a typical client followed by a 3-6 week implementation process to get a new client started. With high volume sales and an implementation model tailored to the needs of medium sized businesses, managing our revenue growth risk is different than for traditional enterprise software companies. Our revenues are fairly linear over the course of the quarter as we are not waiting to sign a few large deals at the end of the quarter to achieve our sales objectives. We are very metrics driven and assess the productivity of our sales reps frequently. We know how business has converted over time, so tracking this information provides us with comfort as to how our sales funnel is operating.

We have also developed a unique referral network of 401(k) advisors, insurance brokers, third-party administrators and HR consultants which provide our sales force highly qualified leads. A key reason for our success in this channel is our ability to automate data integration capabilities to clients connecting the client's payroll information to product providers in the 401k and insurance industries. This integration reduces complexity and the risk of error associated with manual data transfers saving time for our clients and their brokers.

Greater than 25% of new revenue generated by our sales organization comes from leads provided by this referral channel.

We also have leveraged two resellers to address specific territories. And as we noted in our S-1, we have the right to acquire them. The IPO triggered the right to acquire one reseller this fiscal year and in fact we are in the process of doing that now. While acquiring resellers doesn't change our revenue outlook, it should improve our gross margins. The purchase is expected to close by the end of May.

A key aspect of Paylocity's differentiation in the market is the continuous product innovation we bring to our customers. During the quarter we brought new functionality to market in the form of Paylocity Impressions in Mobile, Mobile Punching with GPS, and Health Care Reform Analytics.

With Paylocity Impressions in Mobile we have extended our social collaboration capability for peer to peer recognition from the desktop into the mobile device. Not only do employees have the ability to recognize one another with customized badges but managers can then approve the recognition all through a mobile device. Peer

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to peer, real time recognition is a critical social component for any organization and Impressions Mobile now delivers it in a more powerful and accessible way as a result of this series of enhancements.

During the quarter we also released Web Time Punch with GPS enabled in our mobile application. The addition of this capability allows client employees to use our mobile-based IPhone or Android application to punch in and out, recording employee hours worked remotely, without sacrificing any of the flexibility of the desktop version. Additionally, the phone's GPS system is leveraged for providing a visual representation, via Google Maps, to the managers of where the punches are taking place. This affords greater control and oversight along with added flexibility and ease of use.

Finally, in Q3 we saw continued deployment and use of our healthcare reform dashboards and analytics tools. Clients along with our Benefit Broker partners are leveraging our unique tools for planning purposes and to assure compliance with the upcoming legislation taking effect January 1st, 2015. Clients and their Brokers access these analytics dashboards to track and override hours

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worked for employees and then to analyze eligibility and affordability based on rules unique to their company. The analytics module has been very well received by our referring brokers with more than 500 brokers attending our series of online seminars introducing this new functionality and providing legislative updates.

Continuing to enhance and expand our product portfolio is a core focus for Paylocity and we have an exciting year of innovation on tap for 2014. An important area of focus will be further expanding the features and functions of our Human Capital Management solutions. We will be highlighting some of this new functionality at the SHRM (Society for Human Resources Management) show in late June.

In summary, we are very pleased with the third quarter results. Before I pass the call over to Peter to review the financial details, I would like to thank our customers, employees and partners for their commitment to Paylocity. I could not be prouder of the collective work across each of our Paylocity teams and appreciate the ongoing support we receive from our clients and

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partners as we deliver innovative solutions to this under-served market. With that, let me turn it over to Peter.

Peter McGrail — CFO

Thanks, Steve.

Before reviewing our financial results in detail, it's worth covering the key aspects of our financial model as this is our first call as a publicly-traded company.

- Our recurring revenues have historically represented 94% or more of our overall revenues, and it is comprised of two components:
  - First, we have recurring fees attributable to our cloud-based payroll and HCM software solutions which make up greater than 92% of overall revenues annually. These recurring fees generally include per client base fees in addition to a fee based on the number of client employees and the number of products a client uses. In our third fiscal quarter, we also charge fees attributable to our preparation of W-2 documents and annual required filings on behalf of our clients.
  - Second, we also 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, we earn interest on these funds through financial institutions with which we have automated clearing house, or ACH, arrangements. Given the current interest rate environment, we do not derive a material amount of recurring revenue from this source (1-2% of overall revenue) but we would obviously benefit from an increase in interest rates.

- Our non-recurring revenues are comprised of 'implementation services and other' and primarily consist of implementation fees charged to new clients for professional services provided to implement and configure our payroll and HCM solutions. These fees typically represent 5%-6% of our overall revenues on an annual basis. Implementations of our payroll solutions typically require only three to six weeks at which point the new client's first payroll is run using our solution. At this point our implementation services are completed so we invoice and recognize the related revenue. We have no deferred revenue to speak of.

- Our agreements with clients do not have a specified term and are generally cancellable by the client on 60 days' or less notice. Even without fixed term agreements, our annual <u>revenue retention rate</u> has been consistently greater than 92% for several years, which as Steve noted is best-in-class for a company targeting firms with 20 — 1,000 employees.

This combination of high recurring revenue percentages and high retention rates provides significant visibility into our future operating results.

- As Steve noted, given the size of the addressable market and our low penetration levels, we are almost entirely focused on the land part of our strategy: generating revenue from new clients. Therefore, to give you the best sense of our momentum in this regard, we intend to provide a quarterly look at recurring fees from NEW versus existing clients. We also plan on updating you annually with regard to our revenue retention performance.

- Like our revenues, we separate our cost of revenues into two different categories; recurring revenue and implementation services and other. These two numbers are combined to form our overall costs and then to produce our overall gross profit margins. We refine our gross margins further by providing adjusted numbers. We adjust for two items. First we exclude stock based compensation and second, we exclude amortization expense associated with capitalized research and development costs. We believe these adjusted numbers provide the best and most reliable comparison to other SaaS companies.

- We view our adjusted recurring revenue margins as the best barometer for our overall long term margin opportunity as we generate these margins on the vast majority of our revenues. We view the negative margins on our implementation services as a great short term investment (they only last 3-6 weeks) which then becomes a long-term high-margin annuity. In regards to implementations, we charge what we believe are market rates and will continue this practice as we continue to gain market share. Over the long-term we believe we can achieve 65-70% overall gross margins. We have opportunities to increase our recurring revenues margins by purchasing our two resellers and, as we continue to scale we expect to leverage our cost structure.

- Looking at the operating expense side of our business, we have historically managed the company to breakeven. As you may remember from our S-1, throughout our history, we've only raised $6 million of primary funding which occurred in May, 2008. Our goal has always been to take advantage of this very large market opportunity and our recently completed IPO considerably advances that cause. More specifically, the IPO allows us to increase our investments in research and development to maintain and extend our technological leadership. It also allows us to invest in sales and marketing activities that have the potential for longer term impacts, including those in our unique broker referral channel.

- Lastly, as I noted a moment ago, like others in our industry, we do collect funds from our clients in advance of making payments to employees and taxing authorities. Our cash flows from investing and financing activities are influenced by the timing and amount of funds held for clients which varies significantly from quarter to quarter. Funds

held for clients are restricted solely for the repayment of client fund obligations.

- With that overview, let me review our third quarter 2014 results, starting with the Income Statement.

- Total revenue for the quarter was $33.8 million dollars which represents a robust 41% increase from the same period in the prior year. As Steve noted, revenue in the third fiscal quarter is always our largest due to our annual recurring billings attributable to the preparation of W-2s and other annual tax filings. January has also historically been the month where we generate the most new client starts during the year and this year was no exception. All that being said, our sales organization had a very strong quarter with regard to generating revenue from new customers.

- Our total recurring revenue of $31.2 million dollars was up 40 percent year over year and represented 92 percent of our total revenue in the quarter.

- Implementation services and other revenue was $2.6 million which was up 47 percent from the year ago level.

- In terms of supplemental revenue metrics, recurring fees from new clients represented 41% of total recurring fees on a fiscal-year-to-date basis which was the same as the last fiscal year and indicates our continued focus on the land part of our strategy. In addition revenue retention, always calculated on a trailing twelve month basis, was greater than 92% for the period which is directly in-line with our historical performance and is, we believe, best in class for our segment.

- Moving down the P&L, I will be talking about gross profit on an adjusted basis, which in addition to excluding stock based compensation also excludes amortization of capitalized software. A reconciliation of GAAP to non-GAAP is provided in the press release we issued after the close today. Adjusted gross profit in the third quarter was $19.6 million, representing a gross margin of 58 percent, as compared to $14.0 million or 58 percent in the third quarter of 2013. Further, our adjusted gross profit on recurring revenues was $21.7 million or 69% in the third quarter, up from $15.1 million or 68% in the year prior.

- Now turning to operating expenses, I will also discuss them on a non-GAAP basis.

- We have invested, and intend to continue to invest, in growing our research and development activities to improve and expand our product offerings. It is essential that we not only maintain but expand, what we believe is, our technological leadership in our segment. In order to understand our overall investment in research and development it is important to combine both what we expense and what we capitalize. On a combined basis, research and development costs were $3.4 million in the third quarter a 45% increase from the prior year. Further, for the nine months ended March 31, 2014, we've increased our research and development expenses to $9.6 million a 59% increase over the prior year. Sales and marketing expense increased to $8.5 million in the third quarter a 44% percent increase from the prior year. As we aggressively pursue the land phase of our strategy, we continue to grow our sales force and expand our marketing activities. General and administrative costs were $4.7 million

as compared to $2.8 million in the prior year. The increase is largely the result of public company costs.

- Our adjusted EBITDA (which is adjusted only for stock-based compensation) was $5.2 million for the quarter versus $4.2 million for the year prior. Our increase in sales was partially offset by increases in operating expenses. Since we went public so late in the third quarter we would expect that our operating expenses as a percentage of sales will continue to increase in the near term as we invest in research and development, expand our sales force and marketing activities and operate as a public company. Again, our adjusted EBITDA results in the third quarter are positively affected by our recurring annual billings that occur during this quarter.

- Over time we believe that our investments and strategies will enable us to create substantial long term shareholder value.

- On a pro forma basis, non-GAAP net income per share was $0.04 based on 44.9 million diluted weighted shares outstanding. This compares to per share income of $0.05 based on 44.4 million diluted

weighted shares outstanding for the same period of last year.

- Briefly covering our GAAP results, gross profit was $18.8 million, operating income was $2.1 million and net income was $1.2 million.

- In regard to the balance sheet, we ended the quarter with cash and cash equivalents of $89 million dollars, driven largely by net IPO proceeds of $82 million dollars.

- From a cash flow perspective, we generated $8.1 million in cash from operating activities in the nine months ended March 31, 2014 and spent $7.9 million on property, plant and equipment and capitalized software. We also paid down our remaining outstanding indebtedness of $1.6 million.

Finally, I'd like to provide our financial guidance for the fourth quarter and full year of 2014.

Fourth quarter fiscal 2014

- Total revenue for the company's fourth quarter of fiscal year 2014 is projected to be in the range of $26 million to $27 million, an increase of approximately 28% to 33% year over year.

- Adjusted EBITDA is expected to be a loss in the range of ($1.3) million to ($2.3) million.

- Non-GAAP net loss is expected to be in the range of ($1.8) million to ($2.8) million, or negative $(0.04) to $(0.06) per share, based on 49.6 million basic weighted average common shares outstanding. This guidance assumes an income tax benefit of approximately $1.2 million.

Fiscal Year 2014 Guidance:

- Revenue for the company's full year 2014 is projected to be in the range of $106 million to $107 million, an increase of approximately 37% to 38% year over year.

- Adjusted EBITDA is expected to be in the range of $3.4 million to $4.4 million.

- On a pro forma basis to reflect the conversion of all outstanding preferred shares as of July 1, 2013, non-GAAP net (loss) is expected to be in the range of ($1.2) million to $(2.2) million, or negative $(0.03) to negative ($0.05) per share, based on 45.4 million basic weighted average common shares outstanding.

  This guidance assumes an income tax benefit of approximately $.8 million and assumes no valuation allowance in the fourth quarter. We provide tax benefit information as we assess the need for a valuation allowance at the end of every reporting period. We have not recorded a valuation allowance in the past but this does not mean we will not require one in the future.

Lastly, I did want to point out a Q3 subsequent event. Our principal stockholder and founder, Steve Sarowitz, is contributing $1.1 million to the Company for the express purpose of paying a cash bonus to long-term employees in recognition of their past service. The Company intends to record a capital contribution to additional paid-in capital for the amount received from Mr. Sarowitz and compensation expense for the amount paid to employees in the three-month period ended June 30, 2014, accordingly. It's a tremendous gesture by our founder who remains a tremendous proponent and contributor to our success.

In summary, we are pleased with our operational performance during the first quarter of 2014.

Operator, we are now ready to begin the Q&A session.