

Paylocity Holding Corp
Form 424B4
December 12, 2014

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-200448

Prospectus

4,600,000 Shares

Paylocity Holding Corporation

Common Stock

We are selling 750,000 shares of common stock. The selling stockholders identified in this prospectus are selling an additional 3,850,000 shares of common stock. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

Our common stock is listed on the NASDAQ Global Select Market under the symbol "PCTY." On December 11, 2014, the last reported sale price of our common stock on the NASDAQ Global Select Market was \$26.68.

We are an "emerging growth company" under the federal securities laws and, as such, are subject to reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 10.

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

| | Per Share | | Total | |
|---|------------------|---------|--------------|-------------|
| Public offering price | \$ | 26.2500 | \$ | 120,750,000 |
| Underwriting discounts and commissions(1) | \$ | 1.2468 | \$ | 5,735,280 |
| Proceeds to us, before expenses | \$ | 25.0032 | \$ | 18,752,400 |
| Proceeds to the selling stockholders, before expenses | \$ | 25.0032 | \$ | 96,262,320 |

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

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The underwriters may also purchase up to an additional 690,000 shares of common stock from the selling stockholders, at the 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 December 17, 2014.

Deutsche Bank Securities

BofA Merrill Lynch

William Blair

JMP Securities

Raymond James

Needham & Company

December 11, 2014.

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

information contained in this prospectus is current only as of the date on the front cover of this prospectus, or other earlier date stated in this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

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PROSPECTUS SUMMARY

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

Paylocity Holding Corporation

Overview

We are a cloud-based provider of payroll and human capital management, or HCM, software solutions for medium-sized organizations, which we define as those having between 20 and 1,000 employees. Our comprehensive and easy-to-use solutions enable our clients to manage their workforces more effectively. As of June 30, 2014, we served approximately 8,500 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 \$55.1 million in fiscal 2012 to \$77.3 million in fiscal 2013, representing a 40% year-over-year increase, and to \$108.7 million in fiscal 2014, representing a 41% year-over-year increase. 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, and to \$101.9 million in fiscal 2014, representing a 40% year-over-year increase. Our annual revenue retention rate was greater than 92% in each of the fiscal years 2012, 2013 and 2014. 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, 2014, we had approximately 8,500 clients. For more information about our key operating metrics, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Metrics."

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We have invested, and intend to continue to invest, in growing our business by expanding our sales and marketing activities, increasing research and development to expand and improve our product offerings, and scaling our technical infrastructure and operations. We incurred net losses of \$7.1 million in fiscal 2014 and had net income of \$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 2014-2018 Forecast* (May 2014) 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 \$22.6 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 \$220 per employee annually. Based on this analysis, we believe our current target addressable market is approximately \$8.8 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

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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 onboarding functionality that enables payroll and HR departments to deliver a highly intuitive, mobile-responsive onboarding experience to new hires.

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

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

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

Summary Risk Factors

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

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

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

Our quarterly operating results have fluctuated in the past and may continue to fluctuate.

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

The markets in which we participate are highly competitive, and if we do not compete effectively, our operating results could be adversely affected.

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

Insiders will continue to have substantial control over us after this offering, which may affect the trading price for our common stock and delay or prevent a third party from acquiring control over us.

The trading price of our common stock may be subject to wide fluctuations.

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 70.2% of our outstanding common stock. See "Risk Factors Insiders will continue to have substantial control over us after this offering, which may limit our stockholders' ability to influence corporate matters and delay or prevent a third party from acquiring control over us."

Corporate Information

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

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

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

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THE OFFERING

| | |
|--|--|
| Common stock offered by us | 750,000 shares |
| Common stock offered by the selling stockholders | 3,850,000 shares |
| Common stock to be outstanding after this offering | 50,327,236 shares |
| Option to purchase additional shares offered by the selling stockholders | 690,000 shares |
| Use of proceeds | We intend to use the 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 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. |
| NASDAQ Global Select Market symbol | PCTY |

Except as otherwise indicated, all information in this prospectus is based upon 49,577,236 shares of common stock outstanding as of September 30, 2014 and excludes:

4,600,430 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2014 having a weighted average exercise price of \$10.96 per share;

479,594 shares of common stock subject to restricted stock unit agreements outstanding as of September 30, 2014;

1,952,469 shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2014 Equity Incentive Plan; and

1,000,000 shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2014 Employee Stock Purchase Plan.

Unless otherwise noted, the information in this prospectus assumes:

No exercise of outstanding options after September 30, 2014;

No purchase of shares in this offering by our officers and directors; and

No exercise by the underwriters of their option to purchase additional shares.

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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 statement of operations data for each of the three fiscal years ended June 30, 2012, 2013 and 2014 and the summary consolidated balance sheet data as of June 30, 2013 and 2014 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data for the three months ended September 30, 2013 and 2014 has been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The summary consolidated balance sheet data as of September 30, 2014 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, | | | Three Months Ended | |
|--|---------------------|---------------|----------------|--------------------|----------------|
| | 2012 | 2013 | 2014 | September 30, 2013 | 2014 |
| (in thousands, except per share data) | | | | | |
| Consolidated Statements of Operations Data: | | | | | |
| Revenues: | | | | | |
| Recurring fees | \$ 51,211 | \$ 71,309 | \$ 100,362 | \$ 20,738 | \$ 29,142 |
| Interest income on funds held for clients | 1,263 | 1,459 | 1,582 | 353 | 363 |
| Total recurring revenues | 52,474 | 72,768 | 101,944 | 21,091 | 29,505 |
| Implementation services and other | 2,622 | 4,526 | 6,743 | 1,278 | 1,604 |
| Total revenues | 55,096 | 77,294 | 108,687 | 22,369 | 31,109 |
| Cost of revenues: | | | | | |
| Recurring revenues | 22,054 | 28,863 | 37,319 | 7,993 | 10,057 |
| Implementation services and other | 7,040 | 10,803 | 17,775 | 3,754 | 5,395 |
| Total cost of revenues | 29,094 | 39,666 | 55,094 | 11,747 | 15,452 |
| Gross profit | 26,002 | 37,628 | 53,593 | 10,622 | 15,657 |
| Operating expenses: | | | | | |
| Sales and marketing | 12,828 | 18,693 | 28,276 | 5,189 | 9,078 |
| Research and development | 1,788 | 6,825 | 10,355 | 1,956 | 4,027 |
| General and administrative | 8,618 | 12,079 | 21,980 | 3,911 | 7,448 |
| Total operating expenses | 23,234 | 37,597 | 60,611 | 11,056 | 20,553 |
| Operating income (loss) | 2,768 | 31 | (7,018) | (434) | (4,896) |

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| | | | | | |
|--|----------|------------|------------|-----------|------------|
| Other income (expense) | (196) | (16) | 163 | 28 | 49 |
| Income (loss) before income taxes | 2,572 | 15 | (6,855) | (406) | (4,847) |
| Income tax (benefit) expense | 884 | (602) | 255 | (362) | 28 |
| Net income (loss) | \$ 1,688 | \$ 617 | \$ (7,110) | \$ (44) | \$ (4,875) |
| Net income (loss) attributable to common stockholders | \$ 998 | \$ (2,291) | \$ (9,392) | (825) | (4,875) |
| Net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | \$ 0.02 | \$ (0.07) | \$ (0.26) | \$ (0.03) | \$ (0.10) |
| Diluted | \$ 0.02 | \$ (0.07) | \$ (0.26) | \$ (0.03) | \$ (0.10) |
| Weighted average shares used in computing net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | 43,873 | 31,988 | 36,707 | 31,988 | 49,566 |
| Diluted | 44,317 | 31,988 | 36,707 | 31,988 | 49,566 |

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| | Three Months Ended | | | | |
|--|-------------------------------|-------------|-------------|----------------------|-------------|
| | Year Ended June 30, | | | September 30, | |
| | 2012 | 2013 | 2014 | 2013 | 2014 |
| (in thousands, except per share data) | | | | | |
| Other Financial Data: | | | | | |
| Adjusted Gross Profit(1) | \$ 28,729 | \$ 40,695 | \$ 57,029 | \$ 11,227 | \$ 16,889 |
| Adjusted Recurring Gross Profit(1) | \$ 33,147 | \$ 46,972 | \$ 67,458 | \$ 13,703 | \$ 20,389 |
| Adjusted EBITDA(1) | \$ 7,660 | \$ 6,301 | \$ 5,448 | \$ 1,188 | \$ 367 |

| | As of June 30, | | As of |
|---|-----------------------|-------------|----------------------|
| | 2013 | 2014 | September 30, |
| | | | 2014 |
| (in thousands) | | | |
| Consolidated Balance Sheet Data: | | | |
| Cash and cash equivalents | \$ 7,594 | \$ 78,848 | 72,843 |
| Working capital(2) | 2,305 | 67,137 | 64,513 |
| Funds held for clients | 355,905 | 417,261 | 432,225 |
| Total assets | 377,916 | 528,151 | 538,725 |
| Debt, current portion | 625 | | |
| Client fund obligations | 355,905 | 417,261 | 432,225 |
| Long-term debt, net of current portion | 938 | | |
| Redeemable convertible preferred stock | 36,573 | | |
| Stockholders' equity (deficit) | (26,592) | 91,134 | 89,770 |

(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, stock-based compensation expenses and one-time bonus pay-outs funded by our founder, 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, stock-based compensation expenses and one-time bonus pay-outs funded by our founder, if any. We define Adjusted EBITDA as net income (loss) before interest expense (income), income tax expense (benefit), depreciation and amortization, stock-based compensation expenses and one-time bonus pay-outs funded by our founder.

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:

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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;

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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, Adjusted Recurring Gross Profit and Adjusted EBITDA only as supplemental information.

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, | | | Three Months Ended | |
|--|----------------------------|---------------|---------------|---------------------------|---------------|
| | 2012 | 2013 | 2014 | September 30, | 2014 |
| | (in thousands) | | | | |
| Reconciliation from Gross Profit to Adjusted Gross Profit | | | | | |
| Gross profit | \$ 26,002 | \$ 37,628 | \$ 53,593 | \$ 10,622 | \$ 15,657 |
| Amortization of capitalized research and development costs | 2,727 | 3,067 | 2,195 | 605 | 593 |
| Stock-based compensation expense | | | 920 | | 639 |
| One-time bonus pay-outs funded by our founder | | | 321 | | |
| Adjusted Gross Profit | \$ 28,729 | \$ 40,695 | \$ 57,029 | \$ 11,227 | \$ 16,889 |

| | Years Ended June 30, | | | Three Months Ended | |
|--|-----------------------------|-------------|-------------|---------------------------|-------------|
| | 2012 | 2013 | 2014 | September 30 | 2014 |
| | (in thousands) | | | | |
| Reconciliation from Total Recurring Revenues to Adjusted Recurring Gross Profit | | | | | |

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| | | | | | |
|--|-----------|-----------|------------|-----------|-----------|
| Total recurring revenues | \$ 52,474 | \$ 72,768 | \$ 101,944 | \$ 21,091 | \$ 29,505 |
| Cost of recurring revenues | (22,054) | (28,863) | (37,319) | 7,993 | 10,057 |
| Recurring gross profit | 30,420 | 43,905 | 64,625 | 13,098 | 19,448 |
| Amortization of capitalized research and development costs | 2,727 | 3,067 | 2,195 | 605 | 593 |
| Stock-based compensation expense | | | 496 | | 348 |
| One-time bonus pay-outs funded by our founder | | | 142 | | |
| Adjusted Recurring Gross Profit | \$ 33,147 | \$ 46,972 | \$ 67,458 | \$ 13,703 | \$ 20,389 |

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| | Year Ended June 30, | | | Three Months Ended | |
|---|---------------------|----------|------------|--------------------|------------|
| | 2012 | 2013 | 2014 | 2013 | 2014 |
| (in thousands) | | | | | |
| Reconciliation from Net Income (Loss) to Adjusted EBITDA | | | | | |
| Net income (loss) | \$ 1,688 | \$ 617 | \$ (7,110) | \$ (44) | \$ (4,875) |
| Interest expense | 261 | 192 | 67 | 22 | |
| Income tax (benefit) expense | 884 | (602) | 255 | (362) | 28 |
| Depreciation and amortization | 4,624 | 5,571 | 6,336 | 1,391 | 1,931 |
| EBITDA(3) | 7,457 | 5,778 | (452) | 1,007 | (2,916) |
| Stock-based compensation expense(4) | 203 | 523 | 4,929 | 181 | 3,283 |
| One-time bonus pay-outs funded by our founder | | | 971 | | |
| Adjusted EBITDA | \$ 7,660 | \$ 6,301 | \$ 5,448 | \$ 1,188 | \$ 367 |

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

(3) Earnings before interest, taxes, depreciation and amortization.

(4) The following table presents stock-based compensation expense as included in the various lines of our consolidated statements of operations:

| | Year Ended June 30, | | | Three Months Ended | |
|--------------------------------|---------------------|--------|----------|--------------------|----------|
| | 2012 | 2013 | 2014 | 2013 | 2014 |
| (in thousands) | | | | | |
| Cost of revenue recurring | \$ | \$ | \$ 496 | \$ | \$ 348 |
| Cost of revenue non-recurring | | | 424 | | 291 |
| Total cost of revenue | | | 920 | | 639 |
| Sales and marketing | | | 765 | | 884 |
| Research and development | | | 615 | | 535 |
| General and administrative | 203 | 523 | 2,629 | 181 | 1,225 |
| Total operating expenses | 203 | 523 | 4,009 | 181 | 2,644 |
| Total stock-based compensation | \$ 203 | \$ 523 | \$ 4,929 | \$ 181 | \$ 3,283 |

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RISK FACTORS

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

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

We have incurred net losses from time to time. We incurred net losses of \$7.1 million in fiscal 2014 and net losses of \$4.9 million for the first quarter of fiscal 2015. 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 be significantly influenced by our ability to attain sufficient scale and productivity to achieve recurring revenues that are sufficient to support the incremental costs to obtain and support new clients. 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;

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Changes in client budgets and procurement policies;

The amount and timing of our investment in research and development activities and whether such investments are capitalized or expensed as incurred;

The number of our clients' employees;

Timing of recognition of revenues and expenses;

Client renewal rates;

Seasonality in our business;

Technical difficulties with our products or interruptions in our services;

Our ability to hire and retain qualified personnel;

Changes in the regulatory requirements and environment related to the products and services which we offer; and

Unforeseen legal expenses, including litigation and settlement costs.

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

In addition, a significant portion of our operating expenses are related to compensation and other items which are relatively fixed in the short-term, and we plan expenditures based in part on our expectations regarding future needs and opportunities. Accordingly, changes in our business or revenue shortfalls could decrease our gross and operating margins and could cause significant changes in our operating results from period to period. If this occurs, the trading price of our common stock could fall substantially, either suddenly or over time.

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

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

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

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The markets in which we participate are highly competitive, and if we do not compete effectively, our operating results could be adversely affected.

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

Several of our competitors are larger, have greater name recognition, longer operating histories and significantly greater resources than we do. Many of these competitors are able to devote greater resources to the development, promotion and sale of their products and services. Furthermore, our current or potential competitors may be acquired by third parties with greater available resources and the ability to initiate or withstand substantial price competition. As a result, our competitors may be able to develop products and services better received by our markets or may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, regulations or client requirements.

In addition, current and potential competitors have established, and might in the future establish, partner or form other cooperative relationships with vendors of complementary products, technologies or services to enable them to offer new products and services, to compete more effectively or to increase the availability of their products in the marketplace. New competitors or relationships might emerge that have greater market share, a larger client base, more widely adopted proprietary technologies, greater marketing expertise, greater financial resources, and larger sales forces than we have, which could put us at a competitive disadvantage. In light of these advantages, current or potential clients might accept competitive offerings in lieu of purchasing our offerings. We expect intense competition to continue for these reasons, and such competition could negatively impact our sales, profitability or market share.

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

The market for our solutions is characterized by rapid technological advancements, changes in client requirements, frequent new product introductions and enhancements and changing industry standards. The life cycles of our products are difficult to estimate. Rapid technological changes and the introduction of new products and enhancements by new or existing competitors could undermine our current market position.

Our success depends in substantial part on our continuing ability to provide products and services that medium-sized organizations will find superior to our competitors' offerings and will continue to use. We intend to continue to invest significant resources in research and development in order to enhance our existing products and services and introduce new high-quality products that clients will want. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis or to effectively bring new products to market, our sales may suffer.

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

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

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

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

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

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

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

If our security measures are breached or unauthorized access to client data or funds is otherwise obtained, our solutions may be perceived as not being secure, clients may reduce the use of or stop using our solutions and we may incur significant liabilities.

Our solutions involve the storage and transmission of our clients' and their employees' proprietary and confidential information. This information includes bank account numbers, tax return information, social security numbers, benefit information, retirement account information, payroll information and system passwords. In addition, we collect and maintain personal information on our own employees in the ordinary course of our business. Finally, our business involves the storage and transmission of funds from the accounts of our clients to their employees, taxing and regulatory authorities and others. As a result, unauthorized access or security breaches of our systems or the

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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 personnel 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 greater than 25% of our new sales in fiscal 2014 were referred to us from our referral network participants, and our referral network may become an even more significant source of client referrals in the future. In most cases, our relationships with referral network participants are informal,

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

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

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

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

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

We typically pay employees and may pay taxing authorities amounts due for a payroll period before a client's electronic funds transfers are finally settled to our account. If client payments are rejected by banking institutions or otherwise fail to clear into our accounts, we may require additional sources of short-term liquidity and our operating results could be adversely affected.

Our payroll processing business involves the movement of significant funds from the account of a client to employees and relevant taxing authorities. For example, in fiscal 2014 we processed almost \$39 billion in payroll transactions. Though we debit a client's account prior to any disbursement on its behalf, due to Automated Clearing House, or ACH, banking regulations, funds previously credited could be reversed under certain circumstances and timeframes after our payment of amounts due to employees and taxing and other regulatory authorities. There is therefore a risk that the employer's funds will be insufficient to cover the amounts we have already paid on its behalf. While such shortage and accompanying financial exposure has only occurred in very limited instances in the past, should clients default on their payment obligations in the future, we might be required to advance substantial amounts of funds to cover such obligations. In such

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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 ACH and wire transfers as part of our client payroll and tax services. While we have contingency plans in place for bank failures, a failure of one of our banking partners or a systemic shutdown of the banking industry could result in the loss of client funds or impede us from accessing and processing funds on our clients' behalf, and could have an adverse impact on our business and liquidity.

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

We currently have agreements with nine banks to execute ACH and wire transfers to support our client payroll and tax services. If one or more of the banks fails to process ACH transfers on a timely basis, or at all, then our relationship with our clients could be harmed and we could be subject to claims by a client with respect to the failed transfers. In addition, these banks have no obligation to renew their agreements with us on commercially reasonable terms, if at all. If these banks terminate their relationships with us or restrict the dollar amounts of funds that they will process on behalf of our clients, their doing so may impede our ability to process funds and could have an adverse impact on our financial results and liquidity.

We depend on our senior management team and other key employees, and the loss of these persons or an inability to attract and retain highly skilled employees could adversely affect our business.

Our success depends largely upon the continued services of our key executive officers, including Steven R. Beauchamp, our President and Chief Executive Officer. We also rely on our leadership team in the areas of research and development, sales, services and general and administrative functions. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. While we have employment agreements with certain of our executive officers, including Mr. Beauchamp, these employment agreements do not require them to continue to work for us for any specified

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period and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers or key employees could have an adverse effect on our business.

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

We believe that to grow our business and be successful, we must continue to develop products that are technologically-advanced, are highly integrable with third-party services, provide significant mobility capabilities and have pleasing and intuitive user experiences. To do so, we must attract and retain highly qualified personnel, particularly employees with high levels of experience in designing and developing software and Internet-related products and services. Competition for these personnel in the greater Chicago area and elsewhere is intense. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed. We follow a practice of hiring the best available candidates wherever located, but as we grow our business, the productivity of our product development and other research and development may be adversely affected. In addition, if we hire employees from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources.

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

Clients use our products in connection with the preparation and filing of tax returns and other regulatory reports. If any of our products contain errors that produce inaccurate results upon which users rely, or cause users to misfile or fail to file required information, we could be subject to liability claims from users. Our agreements with our clients typically contain provisions intended to limit our exposure to such claims, but such provisions may not be effective in limiting our exposure. Contractual limitations we use may not be enforceable and may not provide us with adequate protection against product liability claims in certain jurisdictions. A successful claim for product or service liability brought against us could result in substantial cost to us and divert management's attention from our operations.

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

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

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

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. If the processing of personal information were to be curtailed in this

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manner, our products would be less effective, which may reduce demand for our applications and adversely affect our business.

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

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

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

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

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

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

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

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

We have experienced significant growth in the number of users, transactions and data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our data center and other operations infrastructure to meet the needs of all of our clients. We also seek to maintain excess capacity to facilitate the rapid provision of new client deployments and the expansion of existing client deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters and the evolution of our applications. However, the provision of new hosting infrastructure requires significant lead time. We have experienced, and may in the future experience, website disruptions, outages and other performance problems. These problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, security attacks, fraud, spikes in client usage and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. If we do not accurately predict our infrastructure requirements, our existing clients may experience service outages that may subject us to financial penalties, financial liabilities and client losses. If our operations infrastructure fails to keep pace with increased sales, clients may experience delays as we seek to obtain additional capacity, which could adversely affect our reputation and our revenues.

In addition, our ability to deliver our cloud-based applications depends on the development and maintenance of Internet infrastructure by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, bandwidth capacity, and security. Our services are designed to operate without interruption. However, we have experienced and expect that we will experience future interruptions and delays in services and availability from time to time. In the event of a catastrophic event with respect to one or more of our systems, we may experience an extended period of system unavailability, which could negatively impact our relationship with clients. To operate without interruption, both we and our clients must guard against:

Damage from fire, power loss, natural disasters and other force majeure events outside our control;

Communications failures;

Software and hardware errors, failures and crashes;

Security breaches, computer viruses, hacking, denial-of-service attacks and similar disruptive problems; and

Other potential interruptions.

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

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

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application, require us to indemnify our clients against certain losses due to our own errors and prevent us from gaining additional business from current or future clients.

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

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

Problems faced by our data center locations, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their clients, including us, could adversely affect the availability and processing of our solutions and related services and the experience of our clients. If our data centers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business and cause us to incur additional expense. In addition, any financial difficulties faced by our third-party data center's operator or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict. Any changes in service levels at our third-party data center or any errors, defects, disruptions or other performance problems with our applications could adversely affect our reputation and may damage our clients' stored files or result in lengthy interruptions in our services. Interruptions in our services might reduce our revenues, subject us to potential liability or other expenses or adversely affect our renewal rates.

In addition, while we own, control and have access to our servers and all of the components of our network that are located in our backup data center, we do not control the operation of this facility. The operator of our Wisconsin data center facility has no obligation to renew its agreement with us on commercially reasonable terms, or at all. If we are unable to renew this agreement on commercially reasonable terms, or if the data center operator is acquired, we may be required to transfer our servers and other infrastructure to a new data center facility, and we may incur costs and experience service interruption in doing so.

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

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

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

Defects and errors and any failure by us to identify and address them could result in delays in product introductions and updates, loss of revenue or market share, liability to clients or others,

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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.

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For example, we might lose sales or incur significant expenses if states successfully impose broader guidelines on state sales and use taxes. A successful assertion by one or more states requiring us to collect sales or other taxes on the licensing of our software or provision of our services could result in substantial tax liabilities for past transactions and otherwise harm our business. Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that change over time. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, we may voluntarily engage state tax authorities in order to determine how to comply with that state's rules and regulations. We cannot assure you that we will not be subject to sales and use taxes or related penalties for past sales in states where we currently believe no such taxes are required.

Vendors of services, like us, are typically held responsible by taxing authorities for the collection and payment of any applicable sales and similar taxes. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our services, we might be liable for past taxes in addition to taxes going forward. Liability for past taxes might also include substantial interest and penalty charges. Our clients typically pay us for applicable sales and similar taxes. Nevertheless, our clients might be reluctant to pay back taxes and might refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our clients fail or refuse to reimburse us for all or a portion of these amounts, we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on us going forward will effectively increase the cost of our software and services to our clients and might adversely affect our ability to retain existing clients or to gain new clients in the areas in which such taxes are imposed.

Any future litigation against us could be costly and time-consuming to defend.

We may become subject, from time to time, to legal proceedings and claims that arise in the ordinary course of business such as claims brought by our clients in connection with commercial disputes or employment claims made by our current or former employees. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, overall financial condition, and operating results. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby harming our operating results and leading analysts or potential investors to lower their expectations of our performance, which could reduce the trading price of our stock.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success is dependent, in part, upon protecting our proprietary technology. We rely on a combination of copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. Our proprietary technologies are not covered by any patent or patent application. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our products may be unenforceable under the laws of certain jurisdictions and foreign countries.

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We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to and distribution of our products and proprietary information. The confidentiality agreements on which we rely to protect certain technologies may be breached and may not be adequate to protect our proprietary technologies. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solutions. In addition, we depend, in part, on technology of third parties licensed to us for our solutions, and the loss or inability to maintain these licenses or errors in the software we license could result in increased costs, reduced service levels or delayed sales of our solutions.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our solutions, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our solutions, or injure our reputation. In addition, we may be required to license additional technology from third parties to develop and market new solutions, and we cannot assure you that we could license that technology on commercially reasonable terms, or at all. Although we do not expect that our inability to license this technology in the future would have a material adverse effect on our business or operating results, our inability to license this technology could adversely affect our ability to compete.

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our success depends, in part, upon our not infringing upon the intellectual property rights of others. Our competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to our industry. From time to time, third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. In the future, others may claim that our applications and underlying technology infringe or violate their intellectual property rights. However, we may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our clients or business partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify applications, or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

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The use of open source software in our products and solutions may expose us to additional risks and harm our intellectual property rights.

Some of our products and solutions use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost.

The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts. Accordingly, there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our solutions. In that event, we could be required to seek licenses from third parties in order to continue offering our products or solutions, to re-develop our products or solutions, to discontinue sales of our products or solutions, or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs.

While we monitor the use of all open source software in our products, solutions, processes and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product or solution when we do not wish to do so, it is possible that such use may have inadvertently occurred in deploying our proprietary solutions. In addition, if a third-party software provider has incorporated certain types of open source software into software we license from such third party for our products and solutions without our knowledge, we could, under certain circumstances, be required to disclose the source code to our products and solutions. This could harm our intellectual property position and our business, results of operations and financial condition.

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

Our products utilize certain software of third-party software developers. For example, we license technology from bswift as part of our Paylocity Web Benefits solution. Although we believe that there are alternatives for these products, any significant interruption in the availability of such third-party software could have an adverse impact on our business unless and until we can replace the functionality provided by these products at a similar cost. We note that bswift has entered into an agreement to be acquired by Aetna, and if our relationship with bswift were to materially change or be terminated as a result of the acquisition, we would have to replace its functionality, which could cause us to incur additional expenses or lose revenue. 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.

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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

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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

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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 this Offering and Ownership of Our Common Stock

Insiders will continue to have substantial control over us after this offering, which control 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 70.2% of our outstanding common stock. This significant

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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

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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.

Our stock price may be subject to wide fluctuations.

The trading price of our common stock has been highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this section of this prospectus and others such as:

Our operating performance and the operating performance of similar companies;

Announcements by us or our competitors of acquisitions, business plans or commercial relationships;

Any major change in our board of directors or senior management;

Publication of research reports or news stories about us, our competitors, or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;

The public's reaction to our press releases, our other public announcements and our filings with the SEC;

Sales of our common stock by our directors and executive officers;

Adverse market reaction to any indebtedness we may incur or securities we may issue in the future;

Short sales, hedging and other derivative transactions in our common stock;

The market's reaction to our reduced disclosure as a result of being an emerging growth company under the JOBS Act;

Threatened or actual litigation; and

Other events or factors, including changes in general conditions in the United States and global economies or financial markets (including those resulting from ongoing budget negotiations and intermittent government shutdowns in the United States, acts of God, war, incidents of terrorism, or responses to such events).

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In addition, the stock market in general and the market for Internet-related companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These fluctuations might be even more pronounced in the trading market for our stock shortly following this offering. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in substantial costs, divert our management's attention and resources, and harm our business, operating results, and financial condition.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have only declared or paid cash dividends on our common stock once since 2008 and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future, and the success of an investment in shares of our common stock will depend upon future appreciation in its value, if any. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders purchased their shares.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Upon completion of this offering, we will have 50,327,236 shares of common stock outstanding. The shares sold in this offering will be, and the 8,101,750 shares sold in our initial public offering were, immediately tradable without restriction. Of the remaining shares, 2,342,104 shares can be freely sold in the public market, subject in some cases to volume and other restrictions under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, and 35,313,771 shares will be eligible for sale upon the expiration of lock-up agreements executed in connection with this offering, which is expected to occur 90 days after the date of this offering, subject in some cases to volume and other restrictions under Rules 144 and 701 under the Securities Act, and various vesting agreements. The representatives of the underwriters may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

On March 27, 2014, we registered 8,077,237 shares of our common stock that we have issued or may issue under our equity plans, which shares will be eligible for sale upon the expiration of lock-up agreements, subject in some cases to volume and other restrictions under Rules 144 and 701 under the Securities Act, and various vesting agreements. In addition, some of our employees, including some of our named executive officers, have entered into 10b5-1 trading plans regarding sales of shares of our common stock. These plans provide for sales to occur from time to time. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline. Please see the section titled "Shares Eligible for Future Sale."

Following this offering, holders of approximately 70.1% of our common stock will be entitled to rights with respect to the registration of these shares under the Securities Act. Please see the

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section titled "Description of Capital Stock Registration Rights." If we register their shares of common stock following the expiration of the lock-up agreements, these stockholders could sell those shares in the public market without being subject to the volume and other restrictions of Rule 144 and Rule 701.

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 are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and, 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 have incurred and will continue to incur significantly increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are 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. Compliance with these requirements has increased our legal and financial compliance costs and made some activities more time consuming and costly. In addition, our management and other personnel need to divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we have incurred and 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 have hired 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 being a public company or the timing of such costs.

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

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes unfavorable or misleading research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the market for our stock and demand for our stock could decrease, which could cause our stock price or trading volume to decline.

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 amended and restated certificate of incorporation and amended and restated bylaws:

Authorize the issuance of "blank check" convertible preferred stock that could be issued by our board of directors to thwart a takeover attempt;

Establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;

Require that directors only be removed from office for cause and only upon a supermajority stockholder vote;

Provide that vacancies on the board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders;

Prevent stockholders from calling special meetings; and

Prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders.

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

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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) June 30, 2019.

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Our ability to attract new clients to enter into subscriptions for our products;

Our ability to service clients effectively and induce them to continue to use our products and subscribe to additional products;

Our ability to expand our sales organization to address effectively new geographies which we may target;

Our ability to continue to expand our referral network of third parties, and to continue to provide data integration services compatibility with other third-party service providers;

Our ability to accurately forecast revenue and appropriately plan our expenses;

Continued acceptance of SaaS as an effective method for delivery payroll and HCM solutions;

The attraction and retention of qualified employees and key personnel;

Our ability to protect and defend our intellectual property;

Costs associated with defending intellectual property infringement and other claims;

Unexpected events in the market for our solutions;

Future regulatory, judicial and legislative changes in our industry;

Changes in the competitive environment in our industry and in the market in which we operate; and

Other factors that we discuss in this prospectus in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this prospectus.

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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. 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.

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INDUSTRY AND MARKET DATA

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

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USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately \$18.3 million, based upon the public offering price of \$26.25 per share, after deducting underwriting discounts and commissions 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.

We do not have current specific plans for the use 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.

Table of Contents**MARKET PRICE OF COMMON STOCK**

Our common stock has been listed on the NASDAQ Global Select Market under the symbol "PCTY" since March 19, 2014. Prior to that date, there was no public trading market for our common stock. Our common stock priced at \$17.00 per share in our initial public offering on March 18, 2014. The following table sets forth for the periods indicated the high and low intra-day sale prices per share of our common stock as reported on the NASDAQ Global Select Market:

| | High | Low |
|--|-------------|------------|
| Third Quarter Fiscal 2014 (from March 19, 2014) | \$ 31.00 | \$ 22.11 |
| Fourth Quarter Fiscal 2014 | \$ 25.07 | \$ 15.24 |
| First Quarter Fiscal 2015 | \$ 26.00 | \$ 18.50 |
| Second Quarter Fiscal 2015 (through December 11, 2014) | \$ 30.41 | \$ 19.20 |

On December 11, 2014, the last reported sale price of our common stock on the NASDAQ Global Select Market was \$26.68 per share. As of September 30, 2014, we had 16 holders of record of our common stock. The actual number of holders of common stock is greater than these numbers of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and nominees. The number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

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DIVIDEND POLICY

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

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2014:

On an actual basis; and

On an adjusted basis to give effect to the sale by us of 750,000 shares of common stock by us in this offering at the public offering price of \$26.25 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

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 September 30, 2014 | |
|---|-------------------------------------|------------------------|
| | Actual | As Adjusted |
| | (dollars in thousands) | |
| Cash and cash equivalents | \$ 72,843 | \$ 91,112 |
| Long-term debt, including current maturities | | |
| Stockholders' equity (deficit): | | |
| Preferred stock: \$0.001 par value, 5,000 shares authorized and no shares outstanding, actual and as adjusted | | |
| Common stock: \$0.001 par value, 155,000 shares authorized, 49,577 shares issued and outstanding, actual; 155,000 shares authorized, 50,327 shares issued and outstanding, as adjusted | 50 | 50 |
| Additional paid-in capital | 128,766 | 147,035 |
| Accumulated deficit | (39,046) | (39,046) |
| Total stockholders' equity | \$ 89,770 | \$ 108,039 |
| Total capitalization | \$ 89,770 | \$ 108,039 |

The number of shares of common stock outstanding set forth in the table above is based on 49,577,236 shares of common stock outstanding as of September 30, 2014 and excludes:

4,600,430 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2014 having a weighted average exercise price of \$10.96 per share;

479,594 shares of common stock subject to restricted stock unit agreements outstanding as of September 30, 2014;

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1,952,469 shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2014 Equity Incentive Plan; and

1,000,000 shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2014 Employee Stock Purchase Plan.

Table of Contents**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, 2012, 2013 and 2014 and the consolidated balance sheet data as of June 30, 2013 and 2014 have been derived from the audited consolidated financial statements included elsewhere in this prospectus. Our consolidated statements of operations data for the three months ended September 30, 2013 and 2014 and the selected consolidated balance sheet data presented below as of September 30, 2014 have been derived from unaudited consolidated financial statements included elsewhere in this prospectus. The selected consolidated balance sheet data presented below as of June 30, 2012 has been derived from our audited consolidated financial statements not included in this prospectus and the selected consolidated balance sheet data presented below as of September 30, 2013 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, | | | Three Months Ended | |
|--|---------------------|---------------|----------------|--------------------|----------------|
| | 2012 | 2013 | 2014 | September 30, 2013 | 2014 |
| (in thousands, except per share data) | | | | | |
| Consolidated Statements of Operations Data: | | | | | |
| Revenues: | | | | | |
| Recurring fees | \$ 51,211 | \$ 71,309 | \$ 100,362 | \$ 20,738 | \$ 29,142 |
| Interest income on funds held for clients | 1,263 | 1,459 | 1,582 | 353 | 363 |
| Total recurring revenues | 52,474 | 72,768 | 101,944 | 21,091 | 29,505 |
| Implementation services and other | 2,622 | 4,526 | 6,743 | 1,278 | 1,604 |
| Total revenues | 55,096 | 77,294 | 108,687 | 22,369 | 31,109 |
| Cost of revenues: | | | | | |
| Recurring revenues | 22,054 | 28,863 | 37,319 | 7,993 | 10,057 |
| Implementation services and other | 7,040 | 10,803 | 17,775 | 3,754 | 5,395 |
| Total cost of revenues | 29,094 | 39,666 | 55,094 | 11,747 | 15,452 |
| Gross profit | 26,002 | 37,628 | 53,593 | 10,622 | 15,657 |
| Operating expenses: | | | | | |
| Sales and marketing | 12,828 | 18,693 | 28,276 | 5,189 | 9,078 |
| Research and development | 1,788 | 6,825 | 10,355 | 1,956 | 4,027 |
| General and administrative | 8,618 | 12,079 | 21,980 | 3,911 | 7,448 |
| Total operating expenses | 23,234 | 37,597 | 60,611 | 11,056 | 20,553 |
| Operating income (loss) | 2,768 | 31 | (7,018) | (434) | (4,896) |

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| | | | | | |
|-----------------------------------|----------|--------|------------|---------|------------|
| Other (expense) income | (196) | (16) | 163 | 28 | 49 |
| Income (loss) before income taxes | 2,572 | 15 | (6,855) | (406) | (4,847) |
| Income tax (benefit) expense | 884 | (602) | 255 | (362) | 28 |
| Net income (loss) | \$ 1,688 | \$ 617 | \$ (7,110) | \$ (44) | \$ (4,875) |

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| | Year Ended June 30, | | | Three Months Ended | |
|--|---------------------------------------|------------|------------|--------------------|------------|
| | 2012 | 2013 | 2014 | September 30, 2013 | 2014 |
| | (in thousands, except per share data) | | | | |
| Net income (loss) attributable to common stockholders | \$ 998 | \$ (2,291) | \$ (9,392) | \$ (825) | \$ (4,875) |
| Net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | \$ 0.02 | \$ (0.07) | \$ (0.26) | \$ (0.03) | \$ (0.10) |
| Diluted | \$ 0.02 | \$ (0.07) | \$ (0.26) | \$ (0.03) | \$ (0.10) |
| Weighted average shares used in computing net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | 43,873 | 31,988 | 36,707 | 31,988 | 49,566 |
| Diluted | 44,317 | 31,988 | 36,707 | 31,988 | 49,566 |

| | As of June 30, | | | As of September 30, | |
|---|----------------|----------|-----------|---------------------|-----------|
| | 2012 | 2013 | 2014 | 2013 | 2014 |
| | (in thousands) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash and cash equivalents | \$ 9,031 | \$ 7,594 | \$ 78,848 | \$ 5,299 | \$ 72,843 |
| Working capital | 2,786 | 2,305 | 67,137 | 501 | 64,513 |
| Funds held for clients | 263,255 | 355,905 | 417,261 | 291,559 | 432,225 |
| Total assets | 284,943 | 377,916 | 528,151 | 313,186 | 538,725 |
| Debt, current portion | 1,625 | 625 | | 625 | |
| Client fund obligations | 263,255 | 355,905 | 417,261 | 291,559 | 432,225 |
| Long-term debt, less current portion | 1,563 | 938 | | 781 | |
| Redeemable convertible preferred stock | 36,573 | 36,573 | | 36,573 | |
| Stockholders' equity (deficit) | (27,646) | (26,592) | 91,134 | (26,455) | 89,770 |

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

Forward-Looking Statements

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

Overview

We are a cloud-based provider of payroll and HCM software solutions for medium-sized organizations, which we define as those having between 20 and 1,000 employees. Our comprehensive and easy-to-use solutions enable our clients to manage their workforces more effectively. As of June 30, 2014, we served approximately 8,500 clients across the U.S., which on average had over 100 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.

The 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 growing 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.

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

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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 increased from \$72.8 million in fiscal 2013 to \$101.9 million in fiscal 2014, representing a 40% year-over-year increase. Recurring revenue represented 95%, 94% and 94% of total revenue in fiscal 2012, 2013, and 2014, respectively. Recurring revenue increased from \$21.1 million for the three months ended September 30, 2013 to \$29.5 million for the three months ended September 30, 2014, representing a 40% year-over-year increase. Recurring revenue represented 95% of total revenue for the three month periods ended September 30, 2013 and 2014.

Table of Contents***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 5,500 as of June 30, 2012 to approximately 8,500 as of June 30, 2014, representing compound annual growth rate of approximately 24%. The table below sets forth our client count for the periods indicated, rounded to the nearest fifty.

| | Year Ended June 30, | | |
|---------------------|----------------------------|-------------|-------------|
| | 2012 | 2013 | 2014 |
| Client Count | 5,500 | 6,850 | 8,500 |

The rate at which we add clients is highly variable and seasonal period-to-period 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 three months of fiscal 2014 and fiscal 2015, our recurring fees from new clients were 34% and 35%, respectively. Our recurring fees from new clients for both fiscal 2013 and 2014 were 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

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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, stock-based compensation expenses and one-time bonus pay-outs funded by our founder, 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, stock-based compensation expenses and one-time bonus pay-outs funded by our founder, if any. We define Adjusted EBITDA as net income (loss) before interest expense (income), income tax expense (benefit), depreciation and amortization, stock-based compensation expenses and one-time bonus pay-outs funded by our founder. The table below sets forth our Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA for the periods presented.

| | Year Ended June 30, | | | Three Months Ended | |
|---------------------------------|---------------------|-----------|-----------|--------------------|-----------|
| | 2012 | 2013 | 2014 | September 30, 2013 | 2014 |
| | (in thousands) | | | | |
| Adjusted Gross Profit | \$ 28,729 | \$ 40,695 | \$ 57,029 | \$ 11,227 | \$ 16,889 |
| Adjusted Recurring Gross Profit | \$ 33,147 | \$ 46,972 | \$ 67,458 | \$ 13,703 | \$ 20,389 |
| Adjusted EBITDA | \$ 7,660 | \$ 6,301 | \$ 5,448 | \$ 1,188 | \$ 367 |

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 over 100 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 93%, 92% and 92% of our total revenues during fiscal 2012, 2013 and 2014, 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

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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 \$2.7 million, \$3.1 million and \$2.2 million of capitalized internal-use software costs in fiscal 2012, 2013 and 2014, 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.

Table of Contents*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 2012, 2013 and 2014.

| | Year Ended June 30, | | |
|---|----------------------------|-----------------|------------------|
| | 2012 | 2013 | 2014 |
| | (in thousands) | | |
| Capitalized portion of research and development | \$ 3,716 | \$ 1,967 | \$ 4,674 |
| Expensed portion of research and development | 1,788 | 6,825 | 10,355 |
| Total research and development | \$ 5,504 | \$ 8,792 | \$ 15,029 |

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.

Table of Contents**Results of Operations**

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

| | Year Ended June 30, | | | Three Months Ended | |
|--|---------------------|---------------|-------------------|--------------------|-------------------|
| | 2012 | 2013 | 2014 | 2013 | 2014 |
| | (in thousands) | | | | |
| Consolidated Statements of Operations | | | | | |
| Data: | | | | | |
| Revenues: | | | | | |
| Recurring fees | \$ 51,211 | \$ 71,309 | \$ 100,362 | \$ 20,738 | \$ 29,142 |
| Interest income on funds held for clients | 1,263 | 1,459 | 1,582 | 353 | 363 |
| Total recurring revenues | 52,474 | 72,768 | 101,944 | 21,091 | 29,505 |
| Implementation services and other | 2,622 | 4,526 | 6,743 | 1,278 | 1,604 |
| Total revenues | 55,096 | 77,294 | 108,687 | 22,369 | 31,109 |
| Cost of revenues: | | | | | |
| Recurring revenues | 22,054 | 28,863 | 37,319 | 7,993 | 10,057 |
| Implementation services and other | 7,040 | 10,803 | 17,775 | 3,754 | 5,395 |
| Total costs of revenues | 29,094 | 39,666 | 55,094 | 11,747 | 15,452 |
| Gross profit | 26,002 | 37,628 | 53,593 | 10,622 | 15,657 |
| Operating expenses: | | | | | |
| Sales and marketing | 12,828 | 18,693 | 28,276 | 5,189 | 9,078 |
| Research and development | 1,788 | 6,825 | 10,355 | 1,956 | 4,027 |
| General and administrative | 8,618 | 12,079 | 21,980 | 3,911 | 7,448 |
| Total operating expenses | 23,234 | 37,597 | 60,611 | 11,056 | 20,553 |
| Operating income (loss) | 2,768 | 31 | (7,018) | (434) | (4,896) |
| Other income (expense) | (196) | (16) | 163 | 28 | 49 |
| Income (loss) before income taxes | 2,572 | 15 | (6,855) | (406) | (4,847) |
| Income tax (benefit) expense | 884 | (602) | 255 | (362) | 28 |
| Net income (loss) | \$ 1,688 | \$ 617 | \$ (7,110) | \$ (44) | \$ (4,875) |

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

| | Year Ended June 30, | | | Three Months Ended | |
|--|---------------------|-------------|-------------|-----------------------|--------------|
| | 2012 | 2013 | 2014 | September 30, 2013 | 2014 |
| Consolidated Statements of Operations Data: | | | | | |
| Revenues: | | | | | |
| Recurring fees | 93% | 92% | 92% | 93% | 94% |
| Interest income on funds held for clients | 2% | 2% | 2% | 2% | 1% |
| Total recurring revenues | 95% | 94% | 94% | 95% | 95% |
| Implementation services and other | 5% | 6% | 6% | 5% | 5% |
| Total revenues | 100% | 100% | 100% | 100% | 100% |
| Cost of revenues: | | | | | |
| Recurring revenues | 40% | 37% | 34% | 36% | 33% |
| Implementation services and other | 13% | 14% | 17% | 17% | 17% |
| Total costs of revenues | 53% | 51% | 51% | 53% | 50% |
| Gross profit | 47% | 49% | 49% | 47% | 50% |
| Operating expenses: | | | | | |
| Sales and marketing | 23% | 24% | 26% | 23% | 29% |
| Research and development | 3% | 9% | 10% | 9% | 13% |
| General and administrative | 16% | 16% | 20% | 17% | 24% |
| Total operating expenses | 42% | 49% | 56% | 49% | 66% |
| Operating income (loss) | 5% | 0% | (7)% | (2)% | (16)% |
| Other income (expense) | (0)% | 0% | 0% | 0% | 0% |
| Income (loss) before income taxes | 5% | 0% | (7)% | (2)% | (16)% |
| Income tax (benefit) expense | 2% | (1)% | 0% | (2)% | 0% |
| Net income (loss) | 3% | 1% | (7)% | 0% | (16)% |

Comparison of Three Months Ended September 30, 2013 and 2014

Revenues

| | Three Months Ended September 30, | | Change | |
|---|---|-------------|---------------|----------|
| | 2013 | 2014 | \$ | % |
| Recurring fees | \$ 20,738 | \$ 29,142 | \$ 8,404 | 41% |
| Percentage of total revenues | 93% | 94% | | |
| Interest income on funds held for clients | 353 | 363 | 10 | 3% |
| Percentage of total revenues | 2% | 1% | | |
| Implementation services and other | 1,278 | 1,604 | 326 | 26% |
| Percentage of total revenues | 5% | 5% | | |

Recurring Fees

Recurring fees for the three months ended September 30, 2014 increased by \$8.4 million, or 41%, to \$29.1 million from \$20.7 million for the three months ended September 30, 2013. Recurring

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fees increased primarily as a result of revenue from new clients, as well as increased revenue per client.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the three months ended September 30, 2014 was not materially different as compared to the three months ended September 30, 2013. 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 three months ended September 30, 2014 increased by \$0.3 million, or 26%, to \$1.6 million from \$1.3 million for the three months ended September 30, 2013. Implementation services and other revenue increased primarily as a result of an increase in the number of new clients during the three months ended September 30, 2014 in comparison to the three months ended September 30, 2013.

Cost of Revenues

| | Three Months Ended September 30, | | Change | |
|---|---|-------------|---------------|----------|
| | 2013 | 2014 | \$ | % |
| Cost of recurring revenues | \$ 7,993 | \$ 10,057 | \$ 2,064 | 26% |
| Percentage of recurring revenues | 38% | 34% | | |
| Recurring gross margin | 62% | 66% | | |
| Cost of implementation services and other | 3,754 | 5,395 | 1,641 | 44% |
| Percentage of implementation services and other | 294% | 336% | | |
| Implementation gross margin | (194)% | (236)% | | |

Cost of Recurring Revenues

Cost of recurring revenues for the three months ended September 30, 2014 increased by \$2.1 million, or 26%, to \$10.1 million from \$8.0 million for the three months ended September 30, 2013. Cost of recurring revenues increased primarily as a result of the continued growth of our business, in particular \$1.0 million in employee-related costs resulting from additional personnel necessary to provide services to new and existing clients, \$0.3 million stock-based compensation expenses and \$1.2 million of fees related to the delivery of our services, partially offset by a \$0.5 million decrease in reseller expenses primarily due to our acquisition of one of our resellers during fiscal 2014. Recurring gross margin increased from 62% for the three months ended September 30, 2013 to 66% for the three months ended September 30, 2014, primarily due to a 3% reduction in reseller expense as a percentage of total recurring revenue and a 1% reduction in amortization expense as a percentage of total recurring revenue.

Cost of Implementation Services and Other

Cost of implementation services and other for the three months ended September 30, 2014 increased by \$1.6 million, or 44%, to \$5.4 million from \$3.8 million for the three months ended September 30, 2013. Cost of implementation services and other increased primarily due to an increase in new clients, and a corresponding increase of \$1.2 million in employee-related and other costs to implement our solutions for new clients and \$0.3 million stock-based compensation during the three months ended September 30, 2014.

Table of Contents*Operating Expenses**Sales and Marketing*

| | Three Months Ended | | Change | |
|------------------------------|---------------------------|---------------------------|---------------|----------|
| | September 30, 2013 | September 30, 2014 | \$ | % |
| Sales and marketing | \$ 5,189 | \$ 9,078 | \$ 3,889 | 75% |
| Percentage of total revenues | 23% | 29% | | |

Sales and marketing expenses for the three months ended September 30, 2014 increased by \$3.9 million, or 75%, to \$9.1 million from \$5.2 million for the three months ended September 30, 2013. The increase in sales and marketing expenses was primarily the result of \$2.7 million of additional employee-related expenses incurred due to the expansion of our sales team, including management, direct sales and sales administration by 62 personnel, the addition of 38 sales lead generation personnel, whose function was previously outsourced and recorded in sales and marketing as lead generation expense rather than employee-related expense, and other miscellaneous sales and marketing related expenses. The increase was also attributable to \$0.9 million of stock-based compensation expenses during the three months ended September 30, 2014 associated with our equity incentive plan.

Research and Development

| | Three Months Ended | | Change | |
|------------------------------|---------------------------|---------------------------|---------------|----------|
| | September 30, 2013 | September 30, 2014 | \$ | % |
| Research and development | \$ 1,956 | \$ 4,027 | \$ 2,071 | 106% |
| Percentage of total revenues | 9% | 13% | | |

Research and development for the three months ended September 30, 2014 increased by \$2.1 million, or 106%, to \$4.0 million from \$2.0 million for the three months ended September 30, 2013. The increase in research and development expense was primarily as a result of \$1.4 million in employee-related expenses related to 31 additional development personnel and \$0.5 million of stock-based compensation expenses. 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 three months ended September 30, 2014.

General and Administrative

| | Three Months Ended | | Change | |
|------------------------------|---------------------------|---------------------------|---------------|----------|
| | September 30, 2013 | September 30, 2014 | \$ | % |
| General and administrative | \$ 3,911 | \$ 7,448 | \$ 3,537 | 90% |
| Percentage of total revenues | 17% | 24% | | |

General and administrative expenses for the three months ended September 30, 2014 increased by \$3.5 million, or 90%, to \$7.4 million from \$3.9 million for the three months ended September 30, 2013. The increase was primarily the result of \$1.0 million of additional stock-based compensation expenses, \$0.9 million of additional employee-related expenses related to 25

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additional personnel, \$0.5 million of additional professional fees and \$0.4 million of increased occupancy costs incurred as a result of additional office space.

Other Income (Expense)

| | Three Months Ended | | Change | |
|------------------------------|-------------------------------|-------------|---------------|----------|
| | September 30, 2013 | 2014 | \$ | % |
| Other income (expense) | \$ 28 | \$ 49 | \$ 21 | 75% |
| Percentage of total revenues | * | * | | |

*

Not Meaningful

Other income for the three months ended September 30, 2014 was not materially different as compared to the three months ended September 30, 2013. The slight increase in other income was primarily the result of reduced interest expense as we repaid \$1.4 million of debt since the three-month period ended September 30, 2013 and did not have any notes payable outstanding during the three-month period ended September 30, 2014.

Income Tax (Benefit) Expense

| | Three Months Ended | | Change | |
|------------------------------|-------------------------------|-------------|---------------|----------|
| | September 30, 2013 | 2014 | \$ | % |
| Income tax (benefit) expense | \$ (362) | \$ 28 | \$ 390 | 108% |
| Percentage of total revenues | (2)% | * | | |

*

Not Meaningful

Income tax benefit for the three months ended September 30, 2014 decreased by \$0.4 million, or 108% as compared to the three months ended September 30, 2013. The decrease in income tax benefit was primarily due to the recognition of a deferred tax asset valuation allowance since the three-month period ended September 30, 2013, thus resulting in a minimal income tax (benefit) expense for the three-month period ended September 30, 2014 related to reported net loss.

Comparison of Fiscal Years Ended June 30, 2012, 2013 and 2014

Revenues

| | Year Ended June 30, | | | Change from | | Change from | |
|---|----------------------------|-------------|-------------|--------------------|----------|--------------------|----------|
| | 2012 | 2013 | 2014 | \$ | % | \$ | % |
| Recurring fees | \$ 51,211 | \$ 71,309 | \$ 100,362 | \$ 20,098 | 39% | \$ 29,053 | 41% |
| Percentage of total revenues | 93% | 92% | 92% | | | | |
| Interest income on funds held for clients | \$ 1,263 | \$ 1,459 | \$ 1,582 | \$ 196 | 16% | \$ 123 | 8% |
| Percentage of total revenues | 2% | 2% | 2% | | | | |
| Implementation services and other | \$ 2,622 | \$ 4,526 | \$ 6,743 | \$ 1,904 | 73% | \$ 2,217 | 49% |
| Percentage of total revenues | 5% | 6% | 6% | | | | |

Table of Contents*Recurring Fees*

Recurring fees for fiscal 2014 increased by \$29.1 million, or 41%, to \$100.4 million from \$71.3 million for fiscal 2013. Recurring fees increased primarily as a result of the continued growth of our client base in fiscal 2014, as well as increased revenue per client. Our client count at June 30, 2014 increased by 24% to approximately 8,500 from approximately 6,850 at June 30, 2013.

Recurring fees for fiscal 2013 increased by \$20.1 million, or 39%, to \$71.3 million from \$51.2 million for fiscal 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.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for fiscal 2014 increased by \$0.1 million, or 8%, to \$1.6 million from \$1.5 million for fiscal 2013. 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 partially offset by declining interest rates during fiscal 2014.

Interest income on funds held for clients for fiscal 2013 increased by \$0.2 million, or 16%, to \$1.5 million from \$1.3 million for fiscal 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.

Implementation Services and Other

Implementation services and other revenue for fiscal 2014 increased by \$2.2 million, or 49%, to \$6.7 million from \$4.5 million for fiscal 2013. Implementation services and other revenue increased primarily as a result of the continued growth of our new client base during fiscal 2014.

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

Cost of Revenues

| | Year Ended June 30, | | | Change from | | Change from | |
|---|---------------------|-----------|-----------|--------------|--------------|--------------|--------------|
| | 2012 | 2013 | 2014 | 2012 to 2013 | 2013 to 2014 | 2012 to 2013 | 2013 to 2014 |
| | \$ | \$ | \$ | \$ | % | \$ | % |
| Cost of recurring revenues | \$ 22,054 | \$ 28,863 | \$ 37,319 | \$ 6,809 | 31% | \$ 8,456 | 29% |
| Percentage of recurring revenues | 42% | 40% | 37% | | | | |
| Recurring gross margin | 58% | 60% | 63% | | | | |
| Cost of implementation services and other | \$ 7,040 | \$ 10,803 | \$ 17,775 | \$ 3,763 | 53% | \$ 6,972 | 65% |
| Percentage of implementation services and other | 268% | 239% | 264% | | | | |
| Implementation gross margin | (168)% | (139)% | (164)% | | | | |

Table of Contents*Cost of Recurring Revenues*

Cost of recurring revenues for fiscal 2014 increased by \$8.5 million, or 29%, to \$37.3 million from \$28.9 million for fiscal 2013. Cost of recurring revenues increased primarily as a result of the continued growth of our business, in particular \$4.0 million in additional employee-related costs resulting from additional personnel to provide services to new and existing clients, \$0.5 million of stock-based compensation expenses, \$0.4 million of additional costs attributable to resellers, and \$3.5 million other processing-related fees. Recurring gross margin increased by 3% from 60% in fiscal 2013 to 63% in fiscal 2014 primarily due to a 2% reduction in amortization expense as a percentage of total recurring revenue and a 1% reduction in costs attributable to resellers as a percentage of total recurring revenue.

Cost of recurring revenues for fiscal 2013 increased by \$6.8 million, or 31%, to \$28.9 million from \$22.1 million for fiscal 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 of 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 Implementation Services and Other

Cost of implementation services and other for fiscal 2014 increased by \$7.0 million, or 65%, to \$17.8 million from \$10.8 million for fiscal 2013. Cost of implementation services and other increased primarily due to an increase in new clients during fiscal 2014, along with a corresponding increase of \$5.4 million in employee-related and other costs to implement our solutions for new clients, and \$0.4 million stock-based compensation expenses.

Cost of implementation services and other for fiscal 2013 increased by \$3.8 million, or 53%, to \$10.8 million from \$7.0 million for fiscal 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.

*Operating Expenses**Sales and Marketing*

| | Year Ended June 30, | | | Change from 2012 to 2013 | | Change from 2013 to 2014 | |
|------------------------------|---------------------|-----------|-----------|--------------------------------|-----|--------------------------------|-----|
| | 2012 | 2013 | 2014 | \$ | % | \$ | % |
| Sales and marketing | \$ 12,828 | \$ 18,693 | \$ 28,276 | \$ 5,865 | 46% | \$ 9,583 | 51% |
| Percentage of total revenues | 23% | 24% | 26% | | | | |

Sales and marketing expenses for fiscal 2014 increased by \$9.6 million, or 51%, to \$28.3 million from \$18.7 million for fiscal 2013. The increase in sales and marketing expenses in fiscal 2014 was primarily the result of \$8.5 million of additional employee-related costs from the expansion of our sales team including management, direct sales and sales administration personnel by 62 personnel, the addition of 24 sales lead generation personnel, whose function was previously outsourced and recorded in sales and marketing as lead generation expense rather than employee-related expense, and other miscellaneous sales and marketing related expenses. The increase was also attributable to \$0.8 million of stock-based compensation expenses.

Sales and marketing expenses for fiscal 2013 increased by \$5.9 million, or 46%, to \$18.7 million from \$12.8 million for fiscal 2012. The increase in sales and marketing expenses in

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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.

Research and Development

| | Year Ended June 30, | | | Change from | | Change from | |
|------------------------------|----------------------------|-------------|-------------|---------------------|---------------------|---------------------|---------------------|
| | 2012 | 2013 | 2014 | 2012 to 2013 | 2013 to 2014 | 2013 to 2014 | 2013 to 2014 |
| | \$ | \$ | \$ | \$ | % | \$ | % |
| Research and development | \$ 1,788 | \$ 6,825 | \$ 10,355 | \$ 5,037 | 282% | \$ 3,530 | 52% |
| Percentage of total revenues | 3% | 9% | 10% | | | | |

Research and development for fiscal 2014 increased by \$3.5 million, or 52%, to \$10.4 million from \$6.8 million for fiscal 2013. Research and development costs increased in fiscal 2014 primarily due to \$5.1 million of additional employee-related expenses related to 27 additional development personnel, \$0.6 million of stock-based compensation associated with our equity incentive plan and \$0.5 million related to the one-time bonus pay-outs funded by our founder. This was offset by an increase of \$2.7 million in our capitalized internally developed software costs as we developed significant additional functionality in our human capital management applications during the year.

Research and development for fiscal 2013 increased by \$5.0 million, or 282%, to \$6.8 million from \$1.8 million for fiscal 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.

General and Administrative

| | Year Ended June 30, | | | Change from | | Change from | |
|------------------------------|----------------------------|-------------|-------------|---------------------|---------------------|---------------------|---------------------|
| | 2012 | 2013 | 2014 | 2012 to 2013 | 2013 to 2014 | 2013 to 2014 | 2013 to 2014 |
| | \$ | \$ | \$ | \$ | % | \$ | % |
| General and administrative | \$ 8,618 | \$ 12,079 | \$ 21,980 | \$ 3,461 | 40% | \$ 9,901 | 82% |
| Percentage of total revenues | 16% | 16% | 20% | | | | |

General and administrative expenses for fiscal 2014 increased by \$9.9 million, or 82%, to \$22.0 million from \$12.1 million for fiscal 2013. General and administrative expenses increased primarily as a result of \$4.3 million of additional employee-related expenses relating to 18 additional personnel, \$2.1 million of additional stock-based compensation costs associated with our equity incentive plan, \$1.7 million in additional professional fees and \$0.6 million of increased occupancy costs incurred as a result of our requirement for additional office space.

General and administrative expenses for fiscal 2013 increased by \$3.5 million, or 40%, to \$12.1 million from \$8.6 million for fiscal 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.

Table of Contents*Other Income (Expense)*

| | Year Ended June 30, | | | Change from | | Change from | |
|------------------------------|---------------------|---------|--------|--------------|---|--------------|---|
| | 2012 | 2013 | 2014 | 2012 to 2013 | | 2013 to 2014 | |
| | \$ | \$ | \$ | \$ | % | \$ | % |
| Other income (expense) | \$ (196) | \$ (16) | \$ 163 | \$ 180 | * | \$ 179 | * |
| Percentage of total revenues | | * | * | | | | |

*

Not Meaningful

Other income (expense) for fiscal 2014 increased by \$0.2 million as compared to fiscal 2013. Other income for the year ended June 30, 2014 primarily consists of interest income earned on our cash and cash equivalents, partially offset by interest expense incurred on our note payable and other debt, which was repaid in full in March 2014.

Other income (expense) for fiscal 2013 increased by \$0.2 million as compared to fiscal 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 fiscal 2012 due to increased principal payments in fiscal 2013.

Income Tax (Benefit) Expense

| | Year Ended June 30, | | | Change from | | Change from | |
|------------------------------|---------------------|----------|--------|--------------|---|--------------|---|
| | 2012 | 2013 | 2014 | 2012 to 2013 | | 2013 to 2014 | |
| | \$ | \$ | \$ | \$ | % | \$ | % |
| Effective tax rate | 34% | * | (4)% | | | | |
| Income tax (benefit) expense | \$ 884 | \$ (602) | \$ 255 | \$ (1,486) | * | \$ (857) | * |
| Percentage of total revenues | 2% | (1)% | * | | | | |

*

Not Meaningful

Income tax (benefit) expense fiscal 2014 increased by \$0.9 million, as compared to fiscal 2013 primarily due to the expiration of federal research and development tax credit allowances resulting in a \$0.5 million decline in amount claimed and an increase in non-deductible expenses as a result of our growing business. We also recognized a valuation allowance as of June 30, 2014 on substantially all of our net deferred tax assets, many of which were generated in the three-month period ended June 30, 2014, given our determination that it was more likely than not that we would not recognize the benefits of our net operating loss carryforwards prior to their expiration.

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

Quarterly Results of Operations

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

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

| | Three Months Ended | | | | | |
|---|---------------------------|----------------------|---------------------|------------------|-------------------|----------------------|
| | June 30, | September 30, | December 31, | March 31, | June 30, | September 30, |
| | 2013 | 2013 | 2013 | 2014 | 2014 | 2014 |
| | (In thousands) | | | | | |
| Revenues: | | | | | | |
| Recurring fees | \$ 18,846 | \$ 20,738 | \$ 22,145 | \$ 30,719 | \$ 26,760 | \$ 29,142 |
| Interest income on funds held for clients | 387 | 353 | 378 | 491 | 360 | 363 |
| Total recurring revenues | 19,233 | 21,091 | 22,523 | 31,210 | 27,120 | 29,505 |
| Implementation services and other | 1,029 | 1,278 | 1,382 | 2,556 | 1,527 | 1,604 |
| Total revenues | 20,262 | 22,369 | 23,905 | 33,766 | 28,647 | 31,109 |
| Costs of revenues: | | | | | | |
| Recurring revenues | 7,673 | 7,993 | 9,081 | 10,246 | 9,999 | 10,057 |
| Implementation services and other | 3,203 | 3,754 | 4,237 | 4,679 | 5,105 | 5,395 |
| Total cost of revenues | 10,876 | 11,747 | 13,318 | 14,925 | 15,104 | 15,452 |
| Gross profit | 9,386 | 10,622 | 10,587 | 18,841 | 13,543 | 15,657 |
| Operating expenses: | | | | | | |
| Sales and marketing | 4,979 | 5,189 | 5,423 | 8,678 | 8,986 | 9,078 |
| Research and development | 1,919 | 1,956 | 2,347 | 2,443 | 3,609 | 4,027 |
| General and administrative | 3,357 | 3,911 | 5,228 | 5,587 | 7,254 | 7,448 |
| Total operating expenses | 10,255 | 11,056 | 12,998 | 16,708 | 19,849 | 20,553 |
| Operating income (loss) | (869) | (434) | (2,411) | 2,133 | (6,306) | (4,896) |
| Other income (expense) | 1 | 28 | 22 | 59 | 54 | 49 |
| Income (loss) before income taxes | (868) | (406) | (2,389) | 2,192 | (6,252) | (4,847) |
| Income tax (benefit) expense | (496) | (362) | (877) | (1,042) | 452 | 28 |
| Net income (loss) | \$ (372) | \$ (44) | \$ (1,512) | \$ 1,150 | \$ (6,704) | \$ (4,875) |

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| | Three Months Ended | | | | | |
|---|---------------------------|----------------------|---------------------|------------------|-----------------|----------------------|
| | June 30, | September 30, | December 31, | March 31, | June 30, | September 30, |
| | 2013 | 2013 | 2013 | 2014 | 2014 | 2014 |
| Revenues: | | | | | | |
| Recurring fees | 93% | 93% | 93% | 91% | 93% | 94% |
| Interest income on funds held for clients | 2% | 2% | 2% | 1% | 1% | 1% |
| Total recurring revenues | 95% | 95% | 95% | 92% | 94% | 95% |
| Implementation services and other | 5% | 5% | 5% | 8% | 6% | 5% |
| Total revenues | 100% | 100% | 100% | 100% | 100% | 100% |
| Costs of revenues: | | | | | | |
| Recurring revenues | 38% | 36% | 38% | 30% | 35% | 33% |
| Implementation services and other | 16% | 17% | 18% | 14% | 18% | 17% |
| Total cost of revenues | 54% | 53% | 56% | 44% | 53% | 50% |
| Gross profit | 46% | 47% | 44% | 56% | 47% | 50% |
| Operating expenses: | | | | | | |
| Sales and marketing | 25% | 23% | 23% | 26% | 31% | 29% |
| Research and development | 9% | 9% | 10% | 7% | 13% | 13% |
| General and administrative | 17% | 17% | 22% | 17% | 25% | 24% |
| Total operating expenses | 51% | 49% | 55% | 50% | 69% | 66% |
| Operating income (loss) | (5)% | (2)% | (11)% | 6% | (22)% | (16)% |
| Other income (expense) | 0% | 0% | 0% | 0% | 0% | 0% |
| Income (loss) before income taxes | (5)% | (2)% | (11)% | 6% | (22)% | (16)% |
| Income tax (benefit) expense | (3)% | (2)% | (4)% | (3)% | 1% | 0% |
| Net income (loss) | (2)% | 0% | (7)% | 3% | (23)% | (16)% |

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. Interest income earned on funds held for clients is also positively impacted during the quarter ended March 31 as a result of our increased collection of funds held for clients. Certain payroll taxes are primarily collected during the quarter ended March 31 and subsequently remitted.

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

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

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

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

Critical Accounting Policies and Significant Judgments 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:

Persuasive evidence of an agreement exists;

Service has been provided to the client;

Collection of the fees is reasonably assured; and

Amount of fees to be paid by the client is fixed or determinable.

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

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

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

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

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

Property and Equipment and Long-Lived Assets

We report property and equipment at cost. We calculate depreciation on our property and equipment using a straight-line method over their estimated useful lives, typically three to seven years, or over the term of the related lease for leasehold improvements. We recognized depreciation expense of \$1.9 million, \$2.5 million and \$4.1 million during fiscal 2012, 2013, and 2014, respectively.

We review long-lived assets, such as property and equipment, 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, we first compare the undiscounted cash flows expected to be generated by the 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, we recognize impairment to the extent that the carrying amount exceeds its fair value. We determine fair value through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Capitalized Internal-Use Software Costs

We apply 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. Capitalization of these costs ceases once the project transitions beyond the development stage into the maintenance and incremental improvements stage. Costs associated with preliminary project stage activities, training, maintenance and all other post implementation stage activities are expensed as incurred. We also capitalize certain costs related to specific upgrades and enhancements when it is probable the expenditures will result in significant 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

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certain external direct costs. Capitalized employee costs are limited to the time directly spent on such projects.

Internal-use software is amortized on a straight-line basis over 18 to 24 months. We evaluate the useful lives of these assets on an annual basis and test for impairment 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 fiscal 2012, 2013 or 2014. We capitalized \$3.7 million, \$2.0 million, and \$4.7 million of software development costs for fiscal 2012, 2013 and 2014, respectively including stock-based compensation expenses of \$0.3 million in fiscal 2014. We amortized \$2.7 million, \$3.1 million, and \$2.2 million of capitalized research and development costs fiscal 2012, 2013 and 2014, respectively. In fiscal 2014, we developed significant additional functionality in several of our applications. This development resulted in an increase in capitalized internally-developed software costs in fiscal 2014 as compared to fiscal 2013. 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.

Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. We recorded \$3.0 million of goodwill in connection with the acquisition of BFKMS, Inc. in May 2014. Goodwill is not amortized but is instead tested for impairment at least once on an annual basis. ASU 2011-08, *Testing Goodwill for Impairment* provides an entity the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step impairment test. If the estimated fair value of a reporting unit is less than its carrying amount, including goodwill, the two-step goodwill impairment test is required. Otherwise no further analysis is required.

If the two-step goodwill impairment test is required, first the fair value of the reporting unit is compared with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed. If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit, and step two is performed. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis.

We will perform an annual impairment review of goodwill in our fiscal fourth quarter or if a triggering event occurs between annual reviews. We had no recorded goodwill until our fourth quarter of 2014, so no impairment reviews were required to be performed.

Intangible assets are comprised primarily of client relationships and a non-solicitation agreement and are reported net of accumulated amortization. Client relationships use the straight-line method of amortization over an accelerated nine year time frame, while the non-solicitation agreement uses the straight-line method of amortization over the three year life of the agreement. Amortization expense associated with our intangible assets was \$0, \$0, and \$80 during fiscal 2012, 2013 and 2014, respectively. We review intangible assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. There were no such events or changes in circumstances during fiscal 2012, 2013 or 2014.

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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 maintain a 2008 Equity Incentive Plan, or the 2008 Plan, and a 2014 Equity Incentive Plan, or the 2014 Plan, pursuant to which we have issued options to purchase shares of our common stock and restricted stock units to employees, officers, directors and consultants. The 2014 Plan serves as the successor to the 2008 Plan and permits the granting of options to purchase common stock and other equity incentives at the discretion of the compensation committee of our board of directors. 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.

As of June 30, 2014, options to purchase 4,387,722 shares of our common stock were outstanding, 101,764 restricted stock units were outstanding and 2,581,513 shares of our common stock were reserved for future grant.

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

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

| | Aug. 21, 2012 | Sept. 17, 2012 | July 8, 2013 | Aug. 26, 2013 | Mar. 18, 2014 |
|--|--------------------------|---------------------------|-------------------------|--------------------------|--------------------------|
| Valuation assumptions: | | | | | |
| Weighted average expected dividend yield | | | | | |
| Weighted average expected volatility | 30.7% | 30.7% | 29.5% | 29.5% | 44.5% |
| Weighted average expected term (years) | 4.0 | 4.0 | 4.0 | 4.0 | 6.0 |
| Weighted average risk-free interest rate | 0.6% | 0.6% | 0.5% | 0.5% | 1.94% |

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 were not publicly traded prior to March 2014, 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 \$0.2 million, \$0.5 million and \$4.9 million for fiscal 2012, 2013 and 2014, 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 granted prior to our initial public offering, when using Black-Scholes, is the fair value of the common stock underlying those stock options. Prior to March 2014, we were 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.

Based on the closing stock price on June 30, 2014 of \$21.63, the aggregate intrinsic value of outstanding options to purchase shares of our common stock as of June 30, 2014 was \$51.0 million, of which \$20.9 million related to vested options and \$30.1 million to unvested options. The aggregate intrinsic value of outstanding restricted stock units as of June 30, 2014 was \$2.2 million, all of which were unvested.

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

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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 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.

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 \$4.88 per share.

Our value was then allocated among 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 \$4.88 per share.

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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 \$4.88 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. The 35% discount rate was equal to the discount rate applied in the DCF analysis conducted as of June 30, 2012.

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 among 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 \$6.90 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 \$7.04 on July 8, 2013 and August 26, 2013.

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Reverse Stock Split

On March 5, 2014, we effected a three-for-two reverse stock split on our Common Stock.

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 September 30, 2014, our principal sources of liquidity were \$72.8 million of cash and cash equivalents.

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.

In March 2014, we completed our initial public offering in which we sold 5,366,667 shares of common stock and existing shareholders sold 2,735,083 shares of common stock at a public offering price of \$17.00 per share. We did not receive any proceeds from the sale of common stock by the selling stockholders. We received net proceeds of \$81.9 million after deducting underwriting discounts and commissions of \$6.4 million and other offering expenses of \$2.9 million.

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

| | Year Ended June 30, | | | Three Months Ended |
|---|---------------------|------------|-----------|-----------------------|
| | 2012 | 2013 | 2014 | September 30, 2014 |
| Net cash provided by (used in) operating activities | \$ 8,564 | \$ 6,228 | \$ 7,199 | \$ (200) |
| Cash flows from investing activities: | | | | |
| Capitalized internally-developed software costs | (3,716) | (1,967) | (4,349) | (912) |
| Purchases of property and equipment | (3,446) | (3,987) | (6,667) | (2,499) |
| Payment for acquisitions | | | (6,450) | (2,385) |
| Net change in funds held for clients | 35,724 | (92,650) | (61,356) | (14,964) |
| Net cash provided by (used in) investing activities | 28,562 | (98,604) | (78,822) | (20,760) |
| Cash flows from financing activities: | | | | |
| Net change in client funds obligation | (35,724) | 92,650 | 61,356 | 14,964 |
| Principal payments on long-term debt | (312) | (1,625) | (1,563) | |
| Proceeds from IPO, net of issuance costs | | | 82,032 | |
| Payments on initial public offering costs | | | | (75) |
| Capital contribution | | | 1,052 | |
| Proceeds from issuance of redeemable convertible Series B preferred stock | 27,234 | | | |
| Proceeds from exercise of stock options | 88 | 76 | | 66 |
| Payments for redemption of common stock | (27,371) | (162) | | |
| Net cash provided by (used in) financing activities | (36,085) | 90,939 | 142,877 | 14,955 |
| Net increase (decrease) in cash and cash equivalents | \$ 1,041 | \$ (1,437) | \$ 71,254 | \$ (6,005) |

Operating Activities

Net cash provided by (used in) operating activities was \$(0.2) million for the three months ended September 30, 2014 as compared to \$0.3 million for the three months ended September 30, 2013. Net cash provided by operating activities was \$8.6 million, \$6.2 million and \$7.2 million for fiscal 2012, 2013 and 2014, respectively.

The increase in net cash provided by operating activities from fiscal 2013 to fiscal 2014 was the primarily the result of the change of \$2.3 million in operating assets and liabilities partially offset by the increase in net loss and increases in non-cash items including stock-based compensation expenses and depreciation and amortization. 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 operating assets and liabilities, partially offset by increased depreciation and amortization.

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

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fiscal 2014 we processed almost \$39 billion in payroll transactions. We debit a client's account prior to any disbursement on its behalf, at which time we begin earning

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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 \$(20.8) million for the three months ended September 30, 2014 as compared to \$61.9 million for the three months ended September 30, 2013. Net cash (used in) provided by investing activities was \$28.6 million, \$(98.6) million and \$(78.8) million, for fiscal 2012, 2013 and 2014, respectively.

Excluding the net change in funds held for clients, our net cash (used in) provided by investing activities was \$5.8 million for the three months ended September 30, 2014 as compared to \$2.4 million for the three months ended September 30, 2013. Excluding the net change in funds held for clients, our net cash (used in) provided by investing activities was \$(7.2) million, \$(6.0) million and \$(17.5) million, for fiscal 2012, 2013 and 2014, respectively.

The decrease in net cash used by investing activities of \$19.8 million from fiscal 2013 to fiscal 2014 was primarily due to the timing of receipts and disbursements of cash and cash equivalents held to satisfy client funds obligations of \$31.3 million partially offset by payments of \$6.5 million to acquire the assets of one of our resellers, increased purchases of property and equipment by \$2.7 million and increased capitalization of internally developed software costs by \$2.4 million.

The increase of \$127.2 million in net cash used in investing activities from fiscal 2012 to fiscal 2013 was primarily the result of the timing of receipts and disbursements of cash and cash equivalents held to satisfy client fund obligations of \$128.4 million partially offset by a decrease of \$1.7 million in capitalized internally developed software costs.

Financing Activities

Net cash provided by (used in) financing activities was \$15.0 million for the three months ended September 30, 2014 as compared to \$(64.5) million for the three months ended September 30, 2013. Net cash provided by (used in) financing activities was \$(36.1) million, \$90.9 million and \$142.9 million for fiscal 2012, 2013 and 2014, respectively.

The increase in net cash provided by financing activities from fiscal 2013 to fiscal 2014 was primarily the result of the \$82.0 million in proceeds received from our initial public offering, net of issuance costs. This was partially offset by the \$31.3 million change in funds held for clients. The decrease in net cash used in financing activities from fiscal 2012 to fiscal 2013 was primarily the result of a \$128.4 million change in funds held for clients, partially offset by a net increase of \$1.3 million of principal payments on long-term debt.

Table of Contents**Contractual Obligations and Commitments**

Our principal commitments consist of operating lease obligations and consideration due to one of our resellers to complete the purchase of certain of its assets. The following table summarizes our contractual obligations at June 30, 2014:

| | Total | Payment Due By Period | | | More than 5 years |
|--------------------------------------|-----------|-----------------------|-------------|-------------|-------------------|
| | | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | |
| Operating lease obligations | \$ 17,350 | \$ 3,353 | \$ 6,749 | \$ 5,611 | \$ 1,637 |
| Unconditional purchase obligations | 1,224 | 406 | 818 | | |
| Consideration related to acquisition | 2,985 | 2,985 | | | |
| | \$ 21,559 | \$ 6,744 | \$ 7,567 | \$ 5,611 | \$ 1,637 |

Our remaining reseller agreement provides that we are required upon a termination of the agreement to acquire the assets of the reseller. This agreement provided that the reseller may terminate the agreement by providing nine months' prior notice or upon an initial public offering by the Company. We 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 us or (ii) December 31, 2014. In addition, we, but not the reseller, now have 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 us. 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. We paid this reseller \$1.3 million, \$1.8 million and \$2.1 million for the full fiscal years 2012, 2013 and 2014, respectively. For additional information see note 16 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 \$3.4 million, \$4.0 million and \$6.7 million for fiscal 2012, 2013 and 2014, respectively, and \$2.5 million for the three months ended September 30, 2014, exclusive of capitalized internally developed software costs of \$3.7 million, \$2.0 million, \$4.3 million and \$0.9 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.

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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

In May 2014, the Financial Accounting Standard Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU 2014-09"). ASU 2014-09 supersedes a majority of existing revenue recognition guidance under US GAAP, and requires companies to recognize revenue when goods or services are transferred to a customer in an amount that reflects the consideration to which a company expects to be entitled. Companies may need to apply more judgment and estimation techniques or methods while recognizing revenue, which could result in additional disclosures to the financial statements. ASU 2014-09 allows for either a "full retrospective" adoption or a "modified retrospective" adoption. We are currently evaluating which adoption method we will use. Early application is not permitted. We plan on adopting ASU 2014-09 beginning July 1, 2017 and are currently assessing the potential effects of these changes to our consolidated financial statements.

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.

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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, 2014, we served approximately 8,500 clients across the U.S., which on average had over 100 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 our cloud-based 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, 2013 and 2014. Our total revenues increased from \$55.1 million in fiscal

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2012 to \$77.3 million in fiscal 2013, representing a 40% year-over-year increase and to \$108.7 million in fiscal 2014, representing a 41% year-over-year increase. 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, and to \$101.9 million in fiscal 2014, representing a 40% year-over-year increase. 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 provides significant visibility into our future operating results.

Industry Background

Effective human capital management is a core function for all organizations and requires a significant commitment of dedicated 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 2014-2018 Forecast* (May 2014) 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 \$22.6 billion in 2014. The market opportunity is driven by the importance of payroll and HCM solutions to the successful management of organizations.

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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 \$220 per employee annually. Based on this analysis, we believe our current target addressable market is approximately \$8.8 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 sales force 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 2014-2018 Forecast and 2013 Vendor Shares* (July 2014), the U.S. SaaS market is estimated to be \$26.8 billion in 2014 and is projected to grow at a 17% compound annual growth rate from 2012 to 2017.

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 that 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.

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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, 2014, we served approximately 8,500 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 comprehensive, unified 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.

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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 8,500 clients across the U.S. as of June 30, 2014, 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 onboarding functionality that enables payroll and HR departments to deliver a highly intuitive, mobile-responsive onboarding experience to new hires.

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 payroll and HCM 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.

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Paylocity Web Pay

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

| Feature | Functionality |
|-----------------------------|--|
| Company-Level Configuration | <p>Real time ability to add, delete and modify client-specific payroll settings, including departments, job codes, earnings, deductions, taxes and garnishments</p> <p>Ability to create customized payroll earning or deduction code calculations, 401(k) match calculations and labor cost allocations</p> |
| Configurable Templates | <p>Ability to configure payroll audits that identify potential errors prior to finishing payroll, such as paying the same employee twice</p> <p>Combination of standard and modifiable templates powered by highly-flexible drag-and-drop technology</p> <p>Standard templates such as new hire, job change, leave of absence and termination templates</p> <p>Enables users to configure user interface to efficiently align to organizations' business processes</p> |
| Custom Checklists | <p>Ability to require additional data, add default values and insert new custom fields increases accuracy and consistency of data across the platform</p> <p>Allows users to track critical steps in hiring and other processes</p> |
| Advanced Reporting | <p>Triggers reports and notification emails to track critical steps and informs users when tasks are complete</p> <p>Easy-to-use, powerful reporting dashboard enables users to design and create ad-hoc reports or rely on over 100 standard reports</p> <p>Ability to generate a variety of pre-process reports via report library and report writer</p> <p>Real-time report generation, including the ability to automatically schedule reports to run on a user-defined frequency</p> <p>Point-in-time reporting, including comparative analysis over multiple periods, allowing users to view data from any time in history</p> |

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HR Insight and Analytics

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

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| Feature | Functionality |
|--------------------------------|--|
| Affordable Care Act Compliance | <p>Allows for modeling of all affordability safe harbor methods</p> <p>Simultaneous measurement of initial and standard measurement periods for new hire employees</p> <p>Reporting that provides multiple views allowing brokers and clients to make better informed benefit decisions</p> <p>Advanced search and query capabilities provide ability for administrators to easily access key employee information</p> |

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 | <p>Manage payroll deductions for employee benefit plans such as health and 401(k)</p> <p>Automated employee time-off requests</p> <p>Track employee skills, events, education and prior employment</p> <p>Store employee documentation electronically</p> <p>Record and track company property issued to employees</p> |
| HR Compliance and Reporting | <p>Ability to add custom fields to track additional employee related information</p> <p>Interactive employee organizational chart</p> <p>Family Medical Leave Act (FMLA) tracking</p> <p>Equal Employment Opportunity (EEO) reporting</p> <p>Occupational Safety & Health Administration (OSHA) tracking</p> |

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

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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 | Provides the ability for employees and managers to complete online reviews, add comments and sign off on completed reviews |
| 360° Feedback | Includes automated workflow at each step of the review process with ability for HR administrators to review and provide feedback prior to final approval |
| | Provides the ability to access feedback from employees across the organization to receive input on employee performance and accomplishments |
| Goals Management | Enables year-round or point-in-time 360° feedback |
| | 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 |
| Self-Service Set-Up | Assigns goals specific to employees based on skill level and other factors |
| | 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

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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 | <p>Full online and mobile access through virtually any device having Internet access to individual payroll, HR and benefits information</p> <p>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</p> <p>Administrators can configure portal to link to third-party websites or embed videos</p> <p>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</p> |
| Manager Self-Service Portal | <p>Improves communication among managers and HR and payroll and finance departments</p> <p>Provides a single view for managers where they can approve employee changes and requests, manage outstanding tasks and easily access employee information</p> <p>A workflow engine allows managers to initiate pay rate changes and automatically route changes for approval to various levels of the organization</p> <p>Allows managers to assign supervisors to both direct and indirect reports</p> |

Paylocity Web Onboarding

Web Onboarding delivers a seamless approach to new hire onboarding and events management. The new solution enables payroll and HR departments to deliver a highly intuitive, mobile-responsive onboarding experience to new hires. For administrators, Web Onboarding reduces the manual effort and processes generally associated with onboarding a new hire. Paylocity's Onboarding features include:

Seamless integration with Paylocity payroll and HCM modules reduces manual entry of new hire data

Mobile responsive design and attractive, intuitive interface, engaging new hires in the process

Robust events management capabilities, empowering administrators to proactively manage the onboarding process

High level of customization, allowing administrators to tailor tasks and overall experience for new hire

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Withholding forms wizard, simplifying the process of completing important tax-related paperwork

Ability to add customized content including welcome message, documents, videos and other company specific information.

Administrators can also build workflows to provide alerts and tasks to other parts of the organization involved in the new hire process.

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 barcode 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 and Paylocity Enterprise Benefits

Paylocity Web Benefits and Paylocity Enterprise Benefits (powered by bswift) are benefit management solutions that integrate 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. These solutions also enable premium reconciliation, management of voluntary benefits and advanced reporting. Both Web Benefits and Paylocity Enterprise Benefits integrate seamlessly with Paylocity's Web Pay. Web Benefits features include:

Employee Self-Service Enrollment Portal, designed to perform on mobile devices as well as desktops and laptops

Automated employee deductions updates in Web Pay

Customizable enrollment portal content (text, links, documents, logos)

Reporting on employee enrollment status and enrollment summary

Configurable Medical, Dental and Vision benefit plans, Reimbursement benefit plans (HAS, DCRA, HCRA), Life benefits plans (Basic, Voluntary, AD&D), Long-term and Short-term disability

Electronic Data Interchange (EDI) support for insurance carriers

Paylocity Web Benefits features an intuitive design to make benefits enrollment a simple and straightforward activity for the employee and reduce the overall time and energy payroll and HR administrators spend managing benefits enrollment.

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.

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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 2012, 2013 and 2014.

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, 2014, we provided our solutions to approximately 8,500 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 fiscal 2012, 2013 and 2014, no client accounted for more than 1% of our revenues.

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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 2014, 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