Use these links to rapidly review the document
TABLE OF CONTENTS
Index to Consolidated Financial Statements

Table of Contents

**As filed with the Securities and Exchange Commission on January 30, 2014.**

**Registration No. 333-**

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

## FORM S-1

**REGISTRATION STATEMENT**
**UNDER**
**THE SECURITIES ACT OF 1933**

## Paylocity Holding Corporation

(Exact name of Registrant as Specified in Its Charter)

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

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

**Steven R. Beauchamp**
**President and Chief Executive Officer**
**3850 N. Wilke Road**
**Arlington Heights, Illinois 60004**
**(847) 463-3200**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copies to:**

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

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

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

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

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

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

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

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

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities To Be Registered | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee(2) |
|---|---|---|
| Common Stock, par value $0.001 | $115,000,000 | $14,812.00 |

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act. Includes offering price of shares that the underwriters have the option to purchase to cover over-allotments, if any.

(2) Calculated pursuant to Rule 457(o) under the Securities Act based on an estimate of the proposed maximum offering price.

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

Table of Contents

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

**Preliminary prospectus, subject to completion. Dated January 30, 2014**

**Prospectus**

## Shares

# Paylocity Holding Corporation

## Common Stock

This is the initial public offering of our common stock.

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

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

**We are an "emerging growth company" under the federal securities laws and are eligible for reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 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 |
|---|---|---|
| Initial public offering price | $ | $ |
| Underwriting discounts and commissions(1) | $ | $ |
| Proceeds to us, before expenses | $ | $ |
| Proceeds to the selling stockholders, before expenses | $ | $ |

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

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

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

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

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

, 2014.

paylocity

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

## TABLE OF CONTENTS



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

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

## PROSPECTUS SUMMARY

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

### Paylocity Holding Corporation

**Overview**

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

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

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

We have experienced significant growth in recent years. Our total revenues increased from $39.5 million in fiscal 2011 to $55.1 million in fiscal 2012, representing a 39% year-over-year increase, and to $77.3 million in fiscal 2013, representing a 40% year-over-year increase. Our recurring revenues increased from $37.5 million in fiscal 2011 to $52.5 million in fiscal 2012, representing a 40% year-over-year increase, and to $72.8 million ir fiscal 2013, representing a 39% year-over-year increase. Our annual revenue retention rate was greater than 92% in each of fiscal years 2011, 2012 and 2013. Our recurring revenue model and our high annual revenue retention rates provide significant visibility into our future operating results. As of June 30, 2013, we had approximately 6,850 clients. For more information about our key operating metrics, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Metrics."

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

**Industry Background**

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

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

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

**Our Solution**

Our solution provides the following key benefits to our clients:

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

- *Modern, Intuitive User Experience.* Our intuitive, easy-to-use interface is based on current technology and automatically adapts to users devices, including mobile platforms. Our

platform's self-service functionality and performance management applications provide employees with an engaging experience.

- *Flexible and Configurable Platform.* We design our solutions to be flexible and configurable, allowing our clients to match their use of ou 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 an 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 leading provider of cloud-based 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 expan our product offerings. For example, we recently introduced new healthcare reform functionality that provides clients with the ability to forecast and model the impact of healthcare reform on their businesses.

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

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

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

**Summary Risk Factors**

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

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

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

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

**Corporate Information**

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

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

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

**THE OFFERING**

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

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

- 3,563,587 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2013 having a weighted average exercise price of $2.72 per share;
- 443,770 shares of common stock reserved for future grant or issuance under our 2008 Equity Incentive Plan; provided, however, that effective upon the pricing of this offering, our 2008 Equity Incentive Plan will terminate so that no further awards may be granted thereunder;
- shares of common stock issuable upon exercise of stock options granted effective upon the pricing of this offering, at an exercise price equal to the initial public offering price listed on the cover page of this prospectus, under our 2014 Equity Incentive Plan;
- shares of common stock subject to restricted stock unit agreements under our 2014 Equity Incentive Plan;
- shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2014 Equity Incentive Plan;

- shares of common stock, subject to increase on an annual basis, reserved for future issuance under our 2014 Employee Stock Purchase Plan; and
- 403,800 shares of common stock subject to restricted stock award agreements under our 2008 Equity Incentive Plan.

Unless otherwise noted, the information in this prospectus assumes:

- No exercise of outstanding options after December 31, 2013;
- The conversion of all our outstanding shares of preferred stock into shares of common stock prior to or upon the closing of this offering;
- The filing of our amended and restated certificate of incorporation and the effectiveness of our amended and restated bylaws, which will occur immediately prior to the completion of this offering;
- No purchase of shares in this offering by our officers and directors;
- No exercise by the underwriters of their option to purchase additional shares; and
- The distribution of all 46,293,499 shares of our common stock held by Paylocity Management Holdings, LLC to its individual members prior to the closing of this offering.

## SUMMARY CONSOLIDATED FINANCIAL DATA

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

| | Year Ended June 30, | | | Six Months Ended December 31, | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2012 | 2013 |
| | (in thousands, except per share data) | | | | |
| **Consolidated Statements of Operations Data:** | | | | | |
| Revenues: | | | | | |
| Recurring fees | $ 36,443 | $ 51,211 | $ 71,309 | $ 30,639 | $ 42,883 |
| Interest income on funds held for clients | 1,100 | 1,263 | 1,459 | 625 | 731 |
| Total recurring revenues | 37,543 | 52,474 | 72,768 | 31,264 | 43,614 |
| Implementation services and other | 1,941 | 2,622 | 4,526 | 1,762 | 2,660 |
| Total revenues | 39,484 | 55,096 | 77,294 | 33,026 | 46,274 |
| Cost of revenues: | | | | | |
| Recurring revenues | 16,329 | 22,054 | 28,863 | 13,294 | 17,074 |
| Implementation services and other | 5,416 | 7,040 | 10,803 | 4,762 | 7,991 |
| Total cost of revenues | 21,745 | 29,094 | 39,666 | 18,056 | 25,065 |
| Gross profit | 17,739 | 26,002 | 37,628 | 14,970 | 21,209 |
| Operating expenses: | | | | | |
| Sales and marketing | 9,293 | 12,828 | 18,693 | 7,826 | 10,612 |
| Research and development | 1,565 | 1,788 | 6,825 | 3,054 | 4,303 |
| General and administrative | 6,868 | 8,618 | 12,079 | 5,794 | 9,139 |
| Total operating expenses | 17,726 | 23,234 | 37,597 | 16,674 | 24,054 |
| Operating income (loss) | 13 | 2,768 | 31 | (1,704) | (2,845) |
| Other income (expense) | (179) | (196) | (16) | (9) | 50 |
| Income (loss) before income taxes | (166) | 2,572 | 15 | (1,713) | (2,795) |
| Income tax (benefit) expense | (36) | 884 | (602) | (681) | (1,239) |
| Net income (loss) | $ (130) | $ 1,688 | $ 617 | $ (1,032) | $ (1,556) |
| Net income (loss) attributable to common stockholders | $ (774) | $ 998 | $ (2,291) | $ (2,486) | $ (3,118) |
| Net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | $ (0.01) | $ 0.02 | $ (0.05) | $ (0.05) | $ (0.06) |
| Diluted | $ (0.01) | $ 0.02 | $ (0.05) | $ (0.05) | $ (0.06) |
| Weighted average shares used in computing net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | 56,308 | 65,808 | 47,983 | 47,983 | 47,983 |
| Diluted | 56,308 | 66,475 | 47,983 | 47,983 | 47,983 |

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

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

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

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

We disclose Adjusted Gross Profit 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 ou operating performance and cash flows.

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

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our income tax expense or the cash requirement to pay our taxes;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in our industry may calculate Adjusted Gross Profit 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 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 or Adjusted EBITDA as an alternative to net income (loss) or cash provided by operating activities, in each case as determined in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results, and we use Adjusted Gross Profit and Adjusted EBITDA only supplementally.

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

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

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

(2) The pro forma balance sheet data as of December 31, 2013 reflects the conversion of all of our preferred stock outstanding to common stock in connection with this offering and the distribution of the shares of our common stock held by Paylocity Management Holdings, LLC to its individual members prior to the closing of this offering.

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

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

## RISK FACTORS

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

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

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

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

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

Our number of new clients increases more during our third fiscal quarter ending March 31 than during the rest of our fiscal year, primarily because many new clients prefer to start using our payroll and HCM solutions at the beginning of a calendar year. In addition, client funds and year-end activities are traditionally higher during our third fiscal quarter. As a result of these factors, our total revenue and expenses have historically grown disproportionately during our third fiscal quarter as compared to other quarters.

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

- The extent to which our products achieve or maintain market acceptance;
- Our ability to introduce new products and enhancements and updates to our existing products on a timely basis;
- Competitive pressures and the introduction of enhanced products and services from competitors;

- Changes in client budgets and procurement policies;
- The amount and timing of our investment in research and development activities and whether such investments are capitalized or expensed as incurred;
- The number of our clients' employees;
- Timing of recognition of revenues and expenses;
- Client renewal rates;
- Seasonality in our business;
- Technical difficulties with our products or interruptions in our services;
- Our ability to hire and retain qualified personnel;
- Changes in the regulatory requirements and environment related to the products and services which we offer; and
- Unforeseen legal expenses, including litigation and settlement costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

systems of our clients could result in the unauthorized disclosure of confidential information, theft, litigation, indemnity obligations and other significant liabilities. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are employed, we may be unable to anticipate these techniques or to implement adequate preventative measures in advance. While we have security measures and controls in place to protect confidential information, prevent data loss, theft and other security breaches, including penetration tests of our systems by independent third parties, if our security measures are breached, our business could be substantially harmed and we could incur significant liabilities. Any such breach or unauthorized access could negatively affect our ability to attract new clients, cause existing clients to terminate their agreements with us, result in reputational damage and subject us to lawsuits, regulatory fines or other actions or liabilities which could materially and adversely affect our business and operating results.

There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim related to a breach or unauthorized access. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and results of operations.

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

We primarily sell our products and implementation services through our direct sales force. To grow our business, we intend to focus on growing our client base for the foreseeable future. Our ability to add clients and to achieve revenue growth in the future will depend upon our ability to grow and develop our direct sales force and on their ability to productively sell our solutions. Identifying and recruiting qualified personnel and training them in the use of our software require significant time, expense and attention. The amount of time it takes for our sales representatives to be fully-trained and to become productive varies widely. In addition, if we hire sales representatives from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations, resulting in a diversion of our time and resources.

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

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

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

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

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

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

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

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

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

Our payroll processing business involves the movement of significant funds from the account of a client to employees and relevant taxing authorities. For example, in fiscal 2013 we processed almost $30 billion in payroll transactions. Though we debit a client's account prior to any disbursement on its behalf, due to ACH banking regulations, funds previously credited could be reversed under certain circumstances and timeframes after our payment of amounts due to employees and taxing and other regulatory authorities. There is therefore a risk that the employer's funds will be insufficient to cover the amounts we have already paid on its behalf. While such shortage and accompanying financial exposure has only occurred in very limited instances in the past, should clients default on their payment obligations in the future, we might be required to advance substantial amounts of funds to cover such obligations. In such an event, we may be

required to seek additional sources of short-term liquidity, which may not be available on reasonable terms, if at all, and our operating results and our liquidity could be adversely affected and our banking relationships could be harmed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Damage from fire, power loss, natural disasters and other force majeure events outside our control;
- Communications failures;
- Software and hardware errors, failures and crashes;
- Security breaches, computer viruses, hacking, denial-of-service attacks and similar disruptive problems; and
- Other potential interruptions.

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

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

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

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

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

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

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

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

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

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

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

failure to achieve market acceptance or expansion, diversion of development and other resources, injury to our reputation, and increased service and maintenance costs. Defects or errors in our product or service processes might discourage existing or potential clients from purchasing from us. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability might be substantial and could adversely affect our operating results.

Because of the large amount of data that we collect and manage, it is possible that hardware failures or errors in our systems could result in data loss or corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our clients, their employees and taxing and other regulatory authorities regard as significant. The costs incurred in correcting any errors or in responding to regulatory authorities or to resulting claims or liability might be substantial and could adversely affect our operating results.

We maintain insurance, but our insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover all claims made against us and defending a suit, regardless of its merit, could be costly and divert management's attention.

Our clients might assert claims against us in the future alleging that they suffered damages due to a defect, error, or other failure of our product or service processes. A product liability claim and errors or omissions claim could subject us to significant legal defense costs and adverse publicity regardless of the merits or eventual outcome of such a claim.

***Client funds that we hold are subject to market, interest rate, credit and liquidity risks. The loss of these funds could have an adverse impact on our business.***

We invest funds held for our clients in liquid, investment-grade marketable securities, money market securities, and other cash equivalents. Nevertheless, our client fund assets are subject to general market, interest rate, credit, and liquidity risks. These risks may be exacerbated, individually or in unison, during periods of unusual financial market volatility. Any loss of or inability to access client funds could have an adverse impact on our cash position and results of operations and could require us to obtain additional sources of liquidity.

In addition, these funds are held in consolidated trust accounts, and as a result the aggregate amounts in the accounts exceed the applicable federal deposit insurance limits. We believe that since such funds are deposited in trust on behalf of our clients, the Federal Deposit Insurance Corporation, or the FDIC, would treat those funds as if they had been deposited by each of the clients themselves and insure each client's funds up to the applicable deposit insurance limits. If the FDIC were to take the position that it is not obligated to provide deposit insurance for our clients' funds or if the reimbursement of these funds were delayed, our business and our clients could be materially harmed.

***If we are required to collect sales and use taxes in additional jurisdictions, we might be subject to liability for past sales and our future sales may decrease. Adverse tax laws or regulations could be enacted or existing laws could be applied to us or our clients, which could increase the costs of our services and adversely impact our business.***

The application of federal, state, and local tax laws to services provided electronically is evolving. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services provided over the Internet. These enactments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and ultimately result in a negative impact on our operating results and cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our products utilize certain software of third-party software developers. For example, we license technology from bswift as part of our Paylocity Web Benefits solution. Although we believe that there are alternatives for these products, any significant interruption in the availability of such third-party software could have an adverse impact on our business unless and until we can replace the functionality provided by these products at a similar cost. Additionally, we rely, to a certain extent, upon such third parties' abilities to enhance their current products, to develop new products on a timely and cost-effective basis and to respond to emerging industry standards and other technological changes. We may be unable to replace the functionality provided by the third-party software currently offered in conjunction with our products in the event that such software becomes obsolete or incompatible with future versions of our products or is otherwise not adequately maintained or updated.

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

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or

regulations could require us to modify our applications in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, resulting in reductions in the demand for Internet-based applications such as ours.

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

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

***Regulatory requirements placed on our software and services could impose increased costs on us, delay or prevent our introduction of new products and services, and impair the function or value of our existing products and services.***

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

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

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

financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

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

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

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

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

***Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.***

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

***We may acquire other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders and otherwise disrupt our operations and adversely affect our operating results.***

We may in the future seek to acquire or invest in other businesses or technologies. The pursuit of potential acquisitions or investments may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

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

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

- Inability to integrate or benefit from acquired technologies or services in a profitable manner;
- Unanticipated costs or liabilities associated with the acquisition;
- Incurrence of acquisition-related costs;
- Difficulty integrating the accounting systems, operations and personnel of the acquired business;
- Difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- Difficulty converting the clients of the acquired business onto our applications and contract terms, including disparities in the revenues, licensing, support or professional services model of the acquired company;
- Diversion of management's attention from other business concerns;
- Adverse effects to our existing business relationships with business partners and clients as a result of the acquisition;
- The potential loss of key employees;
- Use of resources that are needed in other parts of our business; and
- Use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations.

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

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

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

Upon completion of this offering, our directors, executive officers and holders of more than 5% of our common stock, together with their respective affiliates, will beneficially own, in the aggregate, approximately % of our outstanding common stock compared to % represented by the shares sold in this offering. This significant concentration of ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. In addition, these stockholders will be able to exercise influence over all matters requiring stockholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other stockholders. For information regarding the ownership of our outstanding stock by

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

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

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

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

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

- Our operating performance and the operating performance of similar companies;
- Announcements by us or our competitors of acquisitions, business plans or commercial relationships;
- Any major change in our board of directors or senior management;
- Publication of research reports or news stories about us, our competitors, or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- The public's reaction to our press releases, our other public announcements and our filings with the SEC;
- Sales of our common stock by our directors and executive officers;
- Adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- Short sales, hedging and other derivative transactions in our common stock;
- The market's reaction to our reduced disclosure as a result of being an emerging growth company under the JOBS Act;
- Threatened or actual litigation; and
- Other events or factors, including changes in general conditions in the United States and global economies or financial markets (including those resulting from ongoing budget negotiations and intermittent government shutdowns in the United States, acts of God, war, incidents of terrorism, or responses to such events).

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

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

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

***Future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.***

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

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

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

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

***You will experience immediate and substantial dilution.***

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

***If we are unable to implement and maintain effective internal controls over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.***

As a public company, we will be required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and, beginning with our annual report for the fiscal year ending June 30, 2015, provide a management report on the internal controls over financial reporting, which must be attested to by our independent registered public accounting firm to the extent we are no longer an "emerging growth company," as defined by the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We are in the process of designing and implementing the internal controls over financial reporting required to comply with this obligation, which process will be time consuming, costly and complicated. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

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

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

***Anti-takeover provisions in our charter documents and Delaware law could discourage, delay, or prevent a change in control of our company and may affect the trading price of our common stock.***

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law, which apply to us, may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the stockholder becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. For more information, see the section entitled "Description of Capital Stock—Anti-Takeover Provisions Under Our Charter and Bylaws and Delaware Law." In addition, our restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our restated certificate of incorporation and amended and restated bylaws, which will be in effect as of the closing of this offering:

- Authorize the issuance of "blank check" convertible preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- Require that directors only be removed from office for cause and only upon a supermajority stockholder vote;
- Provide that vacancies on the board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders;
- Prevent stockholders from calling special meetings; and
- Prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders.

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

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

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

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

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

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

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

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

## INDUSTRY AND MARKET DATA

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

## USE OF PROCEEDS

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

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

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

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

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

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

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

## DIVIDEND POLICY

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

## CAPITALIZATION

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

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

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

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

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

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

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

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

- 3,563,587 shares of common stock issuable upon the exercise of options outstanding as of December 31, 2013, having a weighted average exercise price of $2.72 per share;
- 443,770 additional common shares reserved for future grant or issuance under our 2008 Equity Incentive Plan; provided, however, that effective upon the pricing of this offering, our 2008 Equity Incentive Plan will terminate so that no further awards may be granted thereunder;
- shares of common stock issuable upon exercise of stock options granted effective upon the pricing of this offering, at an exercise price equal to the initial public offering price listed on the cover page of this prospectus, under our 2014 Equity Incentive Plan;
- shares of common stock subject to restricted stock unit agreements under our 2014 Equity Incentive Plan;
- shares of common stock reserved for future issuance under our 2014 Equity Incentive Plan;
- shares of common stock reserved for future issuance under our 2014 Employee Stock Purchase Plan; and
- 403,800 shares of common stock subject to restricted stock award agreements under our 2008 Equity Incentive Plan.

## DILUTION

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

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

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

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

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

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

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

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

## SELECTED CONSOLIDATED FINANCIAL DATA

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

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

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

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

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

### Forward-Looking Statements

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

### Overview

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

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

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

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

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

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

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

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

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

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

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

**Key Metrics**

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

***Recurring Revenue Growth***

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

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

***Client Count Growth***

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

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

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

***Annual Revenue Retention Rate***

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

***Adjusted Gross Profit and Adjusted EBITDA***

We disclose Adjusted Gross Profit and Adjusted EBITDA because we use them to evaluate our performance, and we believe Adjusted 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 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 or Adjusted EBITDA as an alternative to net income (loss) or cash provided by operating activities, in each case as determined in accordance with GAAP. In addition, our definition of Adjusted Gross Profit and Adjusted EBITDA may be different than the definition utilized for similarly-titled measures used by other companies.

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

amortization and stock-based compensation expenses. The table below sets forth our Adjusted Gross Profit and Adjusted EBITDA for the periods presented.

| | Year Ended June 30, | | | Six Months Ended December 31, | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2012 | 2013 |
| | | | (in thousands) | | |
| Adjusted Gross Profit | $ 19,962 | $ 28,729 | $ 40,695 | $ 16,565 | $ 22,438 |
| Adjusted EBITDA | $ 4,028 | $ 7,660 | $ 6,301 | $ 1,400 | $ 523 |

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

**Basis of Presentation**

***Revenues***

*Recurring Fees*

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

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

*Interest Income on Funds Held for Clients*

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

*Implementation Services and Other*

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

implementation processes. Implementation services and other revenues may fluctuate significantly from quarter to quarter based on the number of new clients, pricing and the product utilization.

***Cost of Revenues***

*Cost of Recurring Revenues*

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

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

*Cost of Implementation Services and Other*

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

***Operating Expenses***

*Sales and Marketing*

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

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

*Research and Development*

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

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

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

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

*General and Administrative*

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

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

*Other Income (Expense)*

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

**Results of Operations**

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

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

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

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

**Comparison of Six Months Ended December 31, 2012 and 2013**

***Revenues***

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

*Recurring Fees*

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

*Interest Income on Funds Held for Clients*

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

*Implementation Services and Other*

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

***Cost of Revenues***

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

*Cost of Recurring Revenues*

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

*Cost of Implementation Services and Other*

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

employee-related costs resulting from additional personnel related to client implementation activities during the six months ended December 31, 2013.

***Operating Expenses***

*Sales and Marketing*

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

Sales and marketing expenses for the six months ended December 31, 2013 increased by $2.8 million, or 36%, to $10.6 million from $7.8 million for the six months ended December 31, 2012. The increase in sales and marketing expenses was primarily the result of $2.8 million of additional employee-related expenses incurred due to the expansion of our direct sales force by 54 personnel and other miscellaneous sales and marketing related expenses.

*Research and Development*

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

Research and development for the six months ended December 31, 2013 increased by $1.2 million, or 41%, to $4.3 million from $3.1 million for the six months ended December 31, 2012. The increase in research and development expense was primarily as a result of $2.5 million in employee-related expenses related to 25 additional development personnel, partially offset by an increase of $1.3 million in capitalized internally-developed software costs for the six months ended December 31, 2013.

*General and Administrative*

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

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

*Other Income (Expense)*

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

* Not meaningful

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

*Income Tax (Benefit) Expense*

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

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

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

***Revenues***

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

*Recurring Fees*

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

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

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

*Interest Income on Funds Held for Clients*

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

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

*Implementation Services and Other*

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

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

***Cost of Revenues***

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

*Cost of Recurring Revenues*

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

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

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

*Cost of Implementation Services and Other*

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

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

***Operating Expenses***

*Sales and Marketing*

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

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

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

*Research and Development*

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

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

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

*General and Administrative*

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

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

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

*Other Income (Expense)*

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

* Not Meaningful

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

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

*Income Tax (Benefit) Expense*

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

* Not Meaningful

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

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

**Quarterly Results of Operations**

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

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

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

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

**Quarterly Trends**

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

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

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

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

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

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

**Critical Accounting Policies and Estimates**

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

***Revenue Recognition***

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

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

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

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

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

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

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

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

***Capitalized Internal-Use Software Costs***

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

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

***Income Taxes***

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

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

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

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

***Stock-Based Compensation***

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

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

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

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

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

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

| | June 1, 2011 | Aug. 21, 2012 | Sept. 17, 2012 | July 8, 2013 | Aug. 26, 2013 |
|---|---|---|---|---|---|
| Valuation assumptions: | | | | | |
| Weighted average expected dividend yield | — | — | | — | |
| Weighted average expected volatility | 31.0% | 30.7% | 30.7% | 29.5% | 29.5% |
| Weighted average expected team (years) | 5.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Weighted average risk-free interest rate | 2.0% | 0.6% | 0.6% | 0.5% | 0.5% |

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

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

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

*Third-Party Valuation Methodology*

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

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

*Fiscal 2011*

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

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

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

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

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

*Fiscal 2013*

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

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

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

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

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

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

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

*Fiscal 2014*

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

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

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

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

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

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

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

*Intrinsic Value of Outstanding Options*

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

**Liquidity and Capital Resources**

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

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

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

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

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

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

***Operating Activities***

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

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

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

***Investing Activities***

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

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

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

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

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

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

***Financing Activities***

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

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

**Contractual Obligations and Commitments**

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

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

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

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

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

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

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

**Capital Expenditures**

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

**Off-Balance Sheet Arrangements**

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

**Quantitative and Qualitative Disclosures about Market Risk**

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

**Interest Rate Risk**

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

**Inflation Risk**

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

**New Accounting Pronouncements**

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

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

# BUSINESS

## Overview

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

Our multi-tenant software platform is highly configurable and includes a unified suite of payroll and HCM applications, such as time and labor tracking and benefits and talent management. Our solutions have been organically developed from our core payroll solution, which we believe is the most critical system of record for medium-sized organizations and an essential gateway to other HCM functionality. We seek to develop deep relationships with our clients through our integrated implementation and client service organization, which is designed to meet the needs of medium-sized organizations.

Effective management of human capital is a core function in all organizations and requires a significant commitment of resources. Organizations are faced with complex and ever-changing requirements, including diverse federal, state and local regulations across multiple jurisdictions. In addition, the workplace operating environment is rapidly changing as employees increasingly become mobile, work remotely and expect an end user experience similar to that of consumer-oriented Internet applications. Medium-sized organizations operating without the infrastructure, expertise or personnel of larger enterprises are uniquely pressured in this complex and dynamic environment. Existing solutions offered by third-party payroll service providers can have limited capabilities and configurability while enterprise-focused software vendors can be expensive and time-consuming to implement and manage. We believe that medium-sized organizations are better served by solutions designed to meet their unique needs.

Our solutions provide the following key benefits to our clients:

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

We market and sell our products primarily through our direct sales force. We generate our sales leads through a variety of focused marketing initiatives and referrals from our extensive referral network of 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants. We derive revenue from a client based on the solutions purchased by the client, the number of client employees and the amount, type and timing of services provided in respect of those client employees. Our revenue retention rate was greater than 92% in each of fiscal 2012 and 2013. Our total revenue increased from $55.1 million in fiscal 2012

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

**Industry Background**

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

***Complex and Ever-Changing Tax and Regulatory Environment***

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

***Growing Demand for Mobility and Enhanced User Experience***

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

***Medium-Sized Organizations Face Unique Challenges***

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

***Large Market Opportunity for Payroll and HCM Solutions***

According to market analyses published by International Data Corporation, or IDC, titled *Worldwide and U.S. Human Capital Management Applications 2013-2017 Forecast: The Cloud Spurs Continued Growth* (May 2013) and *U.S. Payroll Outsourcing Services 2013-2017 Forecast and Analysis* (October 2013), the U.S. market for HCM applications and payroll outsourcing services is estimated to be $22.5 billion in 2014. The market opportunity is driven by the importance of payroll and HCM solutions to the successful management of organizations.

To estimate our addressable market, we focus our analysis on the number of U.S. medium-sized organizations and the number of their employees. According to the U.S. Census Bureau, there were over 565,000 firms with 20 to 999 employees in the U.S. in 2010, employing over 40 million persons. We estimate that if clients were to buy our entire suite of existing solutions at list

prices, they would spend approximately $200 per employee annually. Based on this analysis, we believe our current target addressable market is approximately $8.0 billion. Our existing clients do not typically buy our entire suite of solutions, and as we continue to expand our product offerings, we believe that we have an opportunity to increase the amount clients spend on payroll and HCM solutions per employee and to expand our addressable market.

***Organizations Are Increasingly Transitioning to SaaS Solutions***

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

***Limitations of Existing Solutions***

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

- *Traditional Payroll Service Providers.* Traditional payroll service providers are primarily focused on delivery of a variety of payroll processing services, insurance products and HR business process outsourcing solutions. Many of these solutions offer limited capabilities and integration beyond traditional payroll processing. The lack of a unified and configurable payroll and HCM suite can diminish the effectiveness of a system, detract from user experience and limit integration with other solutions. In addition, we believe that certain traditional payroll service providers often do not provide a high-quality client service experience.

- *Enterprise-Focused Payroll and HCM Software Vendors.* Enterprise-focused software vendors offer solutions and services that are designed for the complex needs and structures of large enterprises. As a result, their solutions can be expensive, complex and time-consuming to implement, operate and maintain.

- *HCM Point Solution Providers.* Many HCM point solutions lack integrated payroll functionality. The implementation and management of multiple point solutions and the reliance on multiple service organizations can be challenging and expensive for medium-sized organizations.

- *Manual Processes for Payroll and HCM Functions.* Manual payroll and HCM processes require increased HR, payroll and finance personnel involvement, resulting in higher costs, slower processing and greater risks of data entry errors.

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

**Our Solution**

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

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

The key benefits of our solution include the following:

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

- *Modern, Intuitive User Experience.* Our intuitive, easy-to-use interface is based on current technology and automatically adapts to users' devices, including mobile platforms, thereby significantly increasing accessibility of our solutions and decreasing the need for training. Our platform's self-service functionality, combined with seamless integration across all our solutions, provides employees with an engaging experience. Our performance management applications include peer-to-peer employee recognition and social employee profiles that create a reward and recognition environment resulting in greater employee engagement.

- *Flexible and Configurable Platform.* We design our solutions to be flexible and configurable, allowing our clients to match their use of our software with their specific business processes and workflows. Our platform has been organically developed from a common code base, data structure and user interface, providing a consistent user experience with powerful features that are easily adaptable to our clients' needs. Our systems centralize payroll and HCM data, minimizing inconsistent and incomplete information that can be produced when using multiple databases.

- *Highly-Attractive SaaS Solution for Medium-Sized Organizations.* Our solutions are cloud-based and offered on a subscription basis, making them easier and more affordable to implement, operate and update and enabling our clients to focus less on their IT infrastructure and more on their core businesses. Our cloud-based software can be operated by a single administrator without the support of an in-house information technology department. Our multi-tenant and modern architecture allows for frequent software enhancements thereby enabling our clients to react to a rapidly changing and complex operating environment. Our cloud-based platform enables our clients to scale their businesses without having to acquire additional hardware or to resolve the integration challenges that often result from traditional outsourcing solutions.

- *Seamless Integration with Extensive Ecosystem of Partners.* Our platform offers our clients automated data integration with over 200 related third-party partner systems, such as 401(k), benefits and insurance provider systems. This integration reduces the complexity and risk of error of manual data transfers and saves time for our clients and their employees. We integrate data with these related systems through a secure connection, which significantly decreases the risk of unauthorized third-party access and other security breaches. Our direct and automated data transmission improves the accuracy of data and facilitates data collection in our partners' systems. We believe having automated data integration with a payroll and HCM provider like us differentiates our partners' product offerings, strengthening their competitive positioning in their own markets.

**Our Strategy**

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

- *Grow Our Client Base.* We believe that our current client base represents only a small portion of the medium-sized organizations that could benefit from our solutions. While we served approximately 6,850 clients across the U.S. as of June 30, 2013, there were over 565,000 firms with 20 to 999 employees in the United States, employing more than 40 million persons, according to the U.S. Census Bureau in 2010. In order to acquire new clients, we plan to continue to grow our sales organization aggressively across all U.S. geographies.

- *Expand Our Product Offerings.* We believe that our leadership position is in significant part the result of our investment and innovation in our product offerings designed for medium-sized organizations. Therefore, we plan to increase investment in software development to continue to advance our platform and expand our product offerings. For example, we recently introduced new healthcare reform functionality that provides clients with the ability to forecast and model the impact of healthcare reform on their businesses.

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

- *Extend Technological Leadership.* We believe that our organically developed cloud-based multi-tenant software platform, combined with our unified database architecture, enhances the experience and usability of our products, providing what we believe to be a competitive advantage over alternative solutions. Our modern, intuitive user interface utilizes features found on many popular consumer Internet sites, enabling users to use our solutions with limited training. We plan to continue our technology innovation, as we have done with our mobile applications, social features and analytics capabilities.

- *Further Develop Our Referral Network.* We have developed a strong network of referral participants, such as 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants, that recommend our solutions and provide referrals. We believe that our platform's automated data integration with over 200 related third-party partner systems is valuable to our referral participants, as they are able to access payroll and HR data through a single system which decreases complexity and cost and complements their own product offerings. We plan to increase integration with third-party providers and expand our referral network to grow our client base and lower our client acquisition costs.

**Our Products**

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

***Paylocity Web Pay***

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

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

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

***Paylocity HR***

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

| Feature | Functionality |
|---|---|
| Employee Record Management | • Manage payroll deductions for employee benefit plans such as health and 401(k)<br>• Automated employee time-off requests<br>• Track employee skills, events, education and prior employment<br>• Store employee documentation electronically<br>• Record and track company property issued to employees<br>• Ability to add custom fields to track additional employee related information |
| HR Compliance and Reporting | • Interactive employee organizational chart<br>• Family Medical Leave Act (FMLA) tracking<br>• Equal Employment Opportunity (EEO) reporting<br>• Occupational Safety & Health Administration (OSHA) tracking<br>• Consolidated Omnibus Budget Reconciliation Act (COBRA) tracking<br>• VETS 100/100A reporting<br>• Workers' compensation tracking and reporting<br>• I-9 verification |

***Paylocity Impressions***

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

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

***Performance Management***

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

| Feature | Functionality |
|---|---|
| Reviews | • Provides the ability for employees and managers to complete online reviews, add comments and sign off on completed reviews |
| | • Includes automated workflow at each step of the review process with ability for HR administrators to review and provide feedback prior to final approval |
| 360° Feedback | • Provides the ability to access feedback from employees across the organization to receive input on employee performance and accomplishments |
| | • Enables year-round or point-in-time 360° feedback |
| Goals Management | • Manages employee goals and appraisals in a single place to reduce the time required to navigate between screens |
| | • Allows specific goals to be displayed on the performance review for increased employee focus and development |
| | • Assigns goals specific to employees based on skill level and other factors |
| Self-Service Set-Up | • Provides the ability to determine and control key success factors |
| | • Provides the ability to create review forms and set review notification date reminders |

***Self-Service HR Portals***

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

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

| Feature | Functionality |
|---|---|
| Employee Self-Service Portal | • Full online and mobile access through virtually any device having Internet access to individual payroll, HR and benefits information<br>• 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<br>• Administrators can configure portal to link to third-party websites or embed videos<br>• Allows employees to independently take actions such as clock in and out, make direct deposit changes, email check information, access tax forms, request time off, view time-off balances, access the company directory, manage contact information |
| Manager Self-Service Portal | • Improves communication among managers and HR and payroll and finance departments<br>• Provides a single view for managers where they can approve employee changes and requests, manage outstanding tasks and easily access employee information<br>• A workflow engine allows managers to initiate pay rate changes and automatically route changes for approval to various levels of the organization<br>• Allows managers to assign supervisors to both direct and indirect reports |

***Paylocity Web Time***

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

***Paylocity Web Benefits***

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

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

**Implementation and Client Services**

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

***Implementation and Training Services***

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

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

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

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

***Client Service***

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

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

***Tax and Regulatory Services***

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

**Clients**

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

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

**Case Studies**

***Rapid Manufacturing***

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

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

***Cantoni***

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

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

***Lutco***

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

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

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

***INSP***

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

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

**Sales and Marketing**

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

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

**Referral Network**

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

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

**Partner Ecosystem**

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

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

**Technology**

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

- *Multi-Tenant Architecture.* Our software solutions were designed with a multi-tenant architecture. This architecture gives us an advantage over many disparate traditional systems which are less flexible and require longer and more costly development and upgrade cycles.

- *Mobile Focused.* We employ mobile-centric principles in our solution design and development. We believe that the increasing mobility of employees heightens the importance of access to our solutions through mobile devices, including smart phones and tablets. Our mobile experience provides our clients and their employees with access to our solutions through virtually any device having Internet access. We bring the flexibility of a secure, cloud-based solution to users without the need to access a traditional desktop or laptop computer.

- *Security.* We maintain comprehensive security programs designed to ensure the security and integrity of client and employee data, protect against security threats or data breaches and prevent unauthorized access. We regulate and limit all access to servers and networks at our data centers. Our systems are monitored for irregular or suspicious activity, and we have dedicated internal staff perform security assessments for each release. Our systems undergo regular penetration testing and source code reviews by an independent third-party security firm.

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

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

**Competition**

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

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

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

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

**Research and Development**

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

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

**Intellectual Property**

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

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

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

**Properties**

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

**Employees**

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

**Legal Proceedings**

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

# MANAGEMENT

## Executive Officers and Directors

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

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

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

## Executive Officers

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

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

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

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

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

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

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

**Non-Management Directors**

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

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

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

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

**Election of Officers**

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

**Board of Directors**

Our board of directors may establish the authorized number of directors from time to time by resolution. Our board of directors currently consists of five members. Each of our current directors will continue to serve until the election and qualification of his or her successor, or his or her earlier death, resignation or removal.

**Director Independence**

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

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

In November 2013, our board of directors undertook a review of its composition, the composition of its committees and the independence of each director. Based upon information requested from and provided by each director concerning his background, employment and affiliations, our board of directors has determined that none of Messrs. Diehl, Mishler or Waters, representing three of our five directors, has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under NASDAQ Global Select Market rules. Our board of directors also determined that Mr. Waters, who serves on our audit committee, Mr. Mishler, who serves on our audit committee and compensation committee, and Mr. Diehl, who serves our audit committee, compensation committee and nominating and corporate governance committee,

satisfy the independence standards for those committees established by applicable SEC and NASDAQ Global Select Market rules. In making this determination, our board of directors considered the relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director.

**Role of the Board in Risk Oversight**

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

**Board Committees**

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

**Audit Committee**

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

- Selecting a firm to serve as the independent registered public accounting firm to audit our financial statements;
- Ensuring the independence of the independent registered public accounting firm;
- Discussing the scope and results of the audit with the independent registered public accounting firm, and reviewing, with management and that firm, our interim and year-end operating results;
- Establishing procedures for employees to submit anonymously concerns about questionable accounting or audit matters;
- Considering the adequacy of our internal controls and internal audit function;

- Reviewing material related party transactions or those that require disclosure; and
- Approving or, as permitted, pre-approving all audit and non-audit services to be performed by the independent registered public accounting firm.

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

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

**Compensation Committee**

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

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

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

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

**Nominating and Corporate Governance Committee**

Our nominating and corporate governance committee is comprised of Messrs. Sarowitz, Beauchamp and Diehl. Mr. Sarowitz is the chairman of our nominating and corporate governance committee. Mr. Diehl is independent under the applicable requirements of the NASDAQ Global

Select Market and SEC rules and regulations. Our nominating and corporate governance committee is responsible for, among other things:

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

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

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

**Compensation Committee Interlocks and Insider Participation**

None of our executive officers has served as a member of the board of directors, or as a member of the compensation or similar committee, of any entity that has one or more executive officers who served on our board of directors or compensation committee during the year ended June 30, 2013. Mr. Sarowitz, our Executive Chairman, and Mr. Diehl, an affiliate of Adams Street Partners, are currently members of our compensation committee. See "Certain Relationships and Related Party Transactions" for a description of recent transactions involving us and Mr. Sarowitz and Mr. Diehl, respectively.

**Code of Business Conduct and Ethics**

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

## EXECUTIVE COMPENSATION

### Summary Compensation Table

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

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

(1) Amounts represent the aggregate grant date fair value of stock options granted during the year computed in accordance with FASB ASC Topic 718. Assumptions used in calculating these are described in Note 11 to our consolidated financial statements included elsewhere in this prospectus.

(2) Includes discretionary annual bonus payouts determined by our compensation committee. Our board of directors establishes an annual business plan for the company. At the end of our fiscal year, our compensation committee considers each named executive officer's performance relative to the attainment of our business plan for the year and meets to discuss, develop and approve the bonus amounts payable to each named executive officer based on his performance. The compensation committee then recommends bonus amounts for our named executive officers to the board for approval.

(3) Includes a bonus of up to 20% of base salary, as determined by our compensation committee based upon achievement of sales growth and productivity targets and a monthly bonus based on the prior month's commissionable sales by all sales personnel.

(4) Consists of 401(k) matching contributions and phone and car allowances.

(5) Excludes amounts payable to Elite Sales Generation, Inc., or Elite, a company owned by Steven I. Sarowitz. See "Certain Relationships and Related Party Transactions—Other Related Party Transactions" for a description of our former agreement with Elite.

**Outstanding Equity Awards at June 30, 2013**

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

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

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

**Employment Agreements**

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

*Steven R. Beauchamp* is party to an amended and restated employment agreement with us effective December 21, 2008. Mr. Beauchamp's current annual base salary is $425,427 and such salary will be reviewed annually with a target increase of 5% per year based upon agreed upon financial objectives for each calendar year. The employment agreement also provides that we will make available to Mr. Beauchamp health, life and short-term disability insurance benefits and will provide him with membership in our retirement plan in accordance with and subject to the terms and conditions of the plan.

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

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

Pursuant to his employment agreement, in the event Mr. Sarowitz's employment is terminated by us without cause, as such term is defined in his employment agreement we will be obligated to

pay him (i) 100% of his then-current monthly base salary for the remainder of the term of his employment agreement and (ii) to the extent Mr. Sarowitz participates in any of our group health plans immediately prior to the date of termination, a lump sum payment equal to the cost of monthly premiums for continued health insurance coverage under such plans for the remaining term of his employment agreement. The severance benefits described above are contingent on Mr. Sarowitz executing a general release of claims in our favor.

*Michael R. Haske* is party to an amended and restated employment agreement with us effective May 14, 2008, as amended on December 4, 2013. This employment agreement provides for a one-year term, which automatically renews for a one year period on September 30 of each year unless either party provides the other party at least 30 days prior written notice of its intention not to renew the employment agreement prior to the expiration of the then current one-year term. Mr. Haske's current annual base salary is $257,992. Mr. Haske is also eligible to receive an annual bonus of up to 20% of his annual salary based upon the achievement of objectives established by us on a yearly basis relating to sales growth and productivity. Mr. Haske is further eligible to receive a monthly bonus based on the prior month's commissionable sales by all sales personnel. Mr. Haske is also eligible to participate in the benefit plans maintained by us from time to time. The employment agreement also provides that we will make available to Mr. Haske health, life and short-term disability insurance benefits and will provide him with membership in our retirement plan in accordance with and subject to the terms of and condition of such plan.

Pursuant to his employment agreement, in the event Mr. Haske's employment is terminated (or the term of Mr. Haske's employment agreement is not renewed) by us without cause, as such term is defined in his employment agreement, we will be obligated to pay him 100% of his then-current monthly base salary for 12 months, following such termination, excluding any bonus payments. The severance benefits described above are contingent on Mr. Haske executing a general release of claims in our favor.

**Director Compensation**

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

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

**Limitations of Liability; Indemnification of Directors and Officers**

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

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

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

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

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

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

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

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

**Indemnity Agreements**

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

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

**Benefit Plans**

***2008 Equity Incentive Plan***

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

We will not grant any additional awards under our 2008 Equity Incentive Plan following the completion of this offering. Instead, we will grant equity awards under our 2014 Equity Incentive Plan which will be effective immediately prior to the closing of this offering. However, our 2008 Equity Incentive Plan will continue to govern the terms and conditions of all outstanding equity awards granted under the 2008 Equity Incentive Plan.

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

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

***2014 Equity Incentive Plan***

Our 2014 Equity Incentive Plan was approved by our board of directors and our stockholders on and will be effective immediately prior to the closing of this offering. It is intended to

make available incentives that will assist us to attract, retain and motivate employees (including officers), consultants and directors. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units and other cash-based or stock-based awards.

A total of shares of our common stock will be initially authorized and reserved for issuance under the 2014 Equity Incentive Plan. This reserve will automatically increase on January 1, 2015 and each subsequent anniversary through 2024, by an amount equal to the smaller of (a) % of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by our board of directors.

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

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

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

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

- *Stock options.* We may grant nonstatutory stock options or incentive stock options (as described in Section 422 of the Internal Revenue Code), each of which gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to purchase a number of shares of our common stock at an exercise price per share determined by the administrator, which may not be less than the fair market value of a share of our common stock on the date of grant.

- *Stock appreciation rights.* A stock appreciation right gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to receive the appreciation in the fair market value of our common stock between the date of grant of the award and the date of its exercise. We may pay the appreciation in

shares of our common stock or in cash, except that a stock appreciation right granted in tandem with a related option is payable only in stock.

- *Restricted stock.* The administrator may grant restricted stock awards either as a bonus or as a purchase right at such price as the administrator determines. Shares of restricted stock remain subject to forfeiture until vested, based on such terms and conditions as the administrator specifies. Holders of restricted stock will have the right to vote the shares and to receive any dividends paid, except that the dividends may be subject to the same vesting conditions as the related shares.

- *Restricted stock units.* Restricted stock units represent rights to receive shares of our common stock (or their value in cash) at a future date without payment of a purchase price (unless required under applicable state corporate laws), subject to vesting or other conditions specified by the administrator. Holders of restricted stock units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the administrator may grant restricted stock units that entitle their holders to dividend equivalent rights.

- *Performance shares and performance units.* Performance shares and performance units are awards that will result in a payment to their holder only if specified performance goals are achieved during a specified performance period. Performance share awards are rights denominated in shares of our common stock, while performance unit awards are rights denominated in dollars. The administrator establishes the applicable performance goals based on one or more measures of business performance enumerated in the 2014 Equity Incentive Plan, such as net revenues, gross margin, net income or total stockholder return. To the extent earned, performance share and unit awards may be settled in cash or in shares of our common stock. Holders of performance shares or performance units have no voting rights or rights to receive cash dividends unless and until shares of common stock are issued in settlement of such awards. However, the administrator may grant performance shares that entitle their holders to dividend equivalent rights.

- *Cash-based awards and other stock-based awards.* The administrator may grant cash-based awards that specify a monetary payment or range of payments or other stock-based awards that specify a number or range of shares or units that, in either case, are subject to vesting or other conditions specified by the administrator. Settlement of these awards may be in cash or shares of our common stock, as determined by the administrator. The holder will have no voting rights or right to receive cash dividends unless and until shares of our common stock are issued pursuant to the award. The administrator may grant equivalent dividend rights with respect to other stock-based awards.

In the event of a change in control as described in the 2014 Equity Incentive Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the 2014 Equity Incentive Plan or substitute substantially equivalent awards. Any awards which are not assumed or continued in connection with a change in control or are not exercised or settled prior to the change in control will terminate effective as of the time of the change in control. Our compensation committee may provide for the acceleration of vesting of any or all outstanding awards upon such terms and to such extent as it determines, except that the vesting of all awards held by members of the board of directors who are not employees will automatically be accelerated in full. The 2014 Equity Incentive Plan will also authorize our compensation committee, in its discretion and without the consent of any participant, to cancel each or any outstanding award denominated in shares upon a change in control in exchange for a payment to the participant with respect to each share subject to the cancelled award of an amount equal to the excess of the

consideration to be paid per share of common stock in the change in control transaction over the exercise price per share, if any, under the award.

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

***2014 Employee Stock Purchase Plan***

In , our board of directors adopted and our stockholders approved our 2014 Employee Stock Purchase Plan, or ESPP, which will become effective upon the closing of this offering.

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

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

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

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

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

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

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

Our ESPP permits participants to purchase common stock through payroll deductions of up to % of their eligible cash compensation, which includes a participant's regular base wages or salary and payments of overtime, shift premiums and paid time off before deduction of taxes and certain compensation deferrals.

Amounts deducted and accumulated from participant compensation are used to purchase shares of our common stock at the end of each offering period. Unless otherwise provided by the administrator, the purchase price of the shares will be 85% of the lower of the fair market value of our common stock on the first trading day of the offering period or on the purchase date. Participants may end their participation at any time during an offering period and will receive a refund of their account balances not yet used to purchase shares. Participation ends automatically upon termination of employment with us.

Prior to the beginning of any offering period, the administrator may alter the maximum number of shares that may be purchased by any participant during the offering period or specify a maximum aggregate number of shares that may be purchased by all participants in the offering period. If insufficient shares remain available under the plan to permit all participants to purchase the number of shares to which they would otherwise be entitled, the administrator will make a pro rata allocation of the available shares. Any amounts withheld from participants' compensation in excess of the amounts used to purchase shares will be refunded, without interest.

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

***401(k) Plan***

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

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

### Distribution of Shares Held by Paylocity Management Holdings, LLC

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

| Name of Stockholder | Shares of Common Stock Received |
|---|---|
| Steven I. Sarowitz | |
| Steven R. Beauchamp | |
| Michael R. Haske | |
| Jenifer L. Page | |
| Total | |

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

### Series B Preferred Stock Financing

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

| Purchaser | Shares of Series B Preferred Stock | Aggregate Purchase Price |
|---|---|---|
| Entities affiliated with Adams Street Partners(1) | 8,399,899 | $ 27,283,712 |

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

**Common Stock Redemption**

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

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

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

**Common Stock Purchase**

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

| Purchaser | Shares of Common Stock | Aggregate Purchase Price |
|---|---|---|
| Entities affiliated with Adams Street Partners(1) | 1,689,050 | $ 2,499,794 |

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

**Equity Issued to Executive Officers and Directors**

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

**Employment Agreements**

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

**Indemnity Agreements**

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

**Investor Rights Agreement**

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

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

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

**Voting Agreement**

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

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

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

**Right of First Refusal and Co-Sale Agreement**

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

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

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

**Other Related Party Transactions**

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

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

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

**Policies and Procedures for Related Party Transactions**

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

## PRINCIPAL AND SELLING STOCKHOLDERS

The following table and footnotes set forth information with respect to the beneficial ownership of our common stock as of January 24, 2014, subject to certain assumptions set forth in the footnote and as adjusted to reflect the sale of the shares of common stock offered in the public offering under this prospectus for:

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

Beneficial ownership of shares is determined under the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power and includes shares issuable upon exercise of options held by the person which may be exercised or converted within 60 days of January 24, 2014. Except as indicated by footnote, and subject to applicable community property laws, we believe each person identified in the table possesses sole voting and investment power with respect to all shares of common stock beneficially owned by them. Shares of common stock subject to options currently exercisable or exercisable within 60 days of January 24, 2014, are deemed to be outstanding for calculating the number and percentage of outstanding shares of the person holding such options, but are not deemed to be outstanding for calculating the percentage ownership of any other person.

Applicable percentage ownership in the following table is based on 66,286,248 shares of common stock outstanding as of January 24, 2014, assuming the conversion of our preferred stock into common stock and the vesting of our restricted stock awards, and shares of common stock outstanding after completion of this offering.

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

| | Shares Beneficially Owned Prior to the Offering | | Number of Shares Offered | Shares Beneficially Owned After the Offering | | Number of Shares to be Sold if Underwriters' Option is Exercised in Full | Shares Beneficially Owned After the Offering if Underwriters' Option is Exercised in Full | |
|---|---|---|---|---|---|---|---|---|
| **Name of Beneficial Owner** | **Shares** | **Percentage** | | **Shares** | **Percentage** | | **Shares** | **Percentage** |
| **5% Stockholders:** | | | | | | | | |
| Paylocity Management Holdings, LLC(1) | | | | | | | | |
| Entities affiliated with Adams Street Partners(2) | | | | | | | | |
| **Named Executive Officers and Directors:** | | | | | | | | |
| Jeffrey T. Diehl(2) | | | | | | | | |
| Steven I. Sarowitz(1)(3) | | | | | | | | |
| Steven R. Beauchamp(1)(4) | | | | | | | | |
| Michael R. Haske(1)(5) | | | | | | | | |
| Mark H. Mishler | | | | | | | | |
| Ronald V. Waters, III | | | | | | | | |
| All executive officers and directors as a group (9 persons)(6) | | | | | | | | |

(1) Shares held by Paylocity Management Holdings, LLC will be distributed to the members of Paylocity Management Holdings, LLC prior to this offering. The distribution will be in accordance with the terms of the Paylocity Management

Holdings, LLC operating agreement. The members of Paylocity Management Holdings, LLC include Steven I. Sarowitz, our Executive Chairman and a director, Steven R. Beauchamp, our President and Chief Executive Officer and a director, Michael R. Haske, our Senior Vice President of Sales & Marketing and Jenifer L. Page our Senior Vice President of Operations, each of whom may be deemed to have shared voting and investment power over the shares.

(2) Represents 3,791,364 shares (2,829,729 shares of Series A preferred stock, 458,524 shares of Series B preferred stock and 503,111 shares of common stock) held by Adams Street 2006 Direct Fund, L.P., or AS 2006, 4,281,494 (3,195,543 shares of Series A preferred stock, 517,800 shares of Series B preferred stock and 568,151 shares of common stock) shares held by Adams Street 2007 Direct Fund, L.P., or AS 2007, 6,122,952 shares (3,474,728 shares of Series A preferred stock, 2,030,436 shares of Series B preferred stock and 617,788 shares of common stock) held by Adams Street 2008 Direct Fund, L.P., or AS 2008, 1,269,196 shares of Series B preferred stock held by Adams Street 2009 Direct Fund, L.P., or AS 2009, 720,972 shares of Series B preferred stock held by Adams Street 2010 Direct Fund, L.P., or AS 2010, 579,228 shares of Series B preferred stock held by Adams Street 2011 Direct Fund LP, or AS 2011, 581,291 shares of Series B preferred stock held by Adams Street 2012 Direct Fund LP, or AS 2012 and 2,242,452 shares of Series B preferred stock held by Adams Street Co-Investment Fund II, L.P., or AS CIF. The shares owned by AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2012 and AS CIF may be deemed to be beneficially owned by Adams Street Partners, LLC, or ASP, the managing member of the general partner of each of AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2012 and AS CIF. Thomas D. Berman, David Brett, Jeffrey T. Diehl, Elisha P. Gould III, Michael S. Lynn, Robin P. Murray, Sachin Tulyani, Craig D. Waslin and David Welsh, each of whom is a partner of Adams Street Partners, LLC (or a subsidiary thereof) may be deemed to have shared voting and investment power over the shares. The address of each of AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2012, AS CIF and ASP is One North Wacker Drive, Suite 2200, Chicago, Illinois 60606. Mr. Diehl is a member of our board of directors. For a discussion of our material relationships with AS 2006, AS 2007, AS 2008, AS 2009, AS 2010, AS 2011, AS 2012, AS CIF, ASP and Mr. Diehl, see the section titled "Certain Relationships and Related Party Transactions." Upon the closing of this offering, all outstanding shares of our Series A preferred stock and Series B preferred stock will be automatically converted into shares of common stock.

(3) Mr. Sarowitz is our Executive Chairman and is a director. For a discussion of our material relationships with Mr. Sarowitz, see the section entitled "Certain Relationships and Related Party Transactions."

(4) Includes 187,500 shares issuable upon the exercise of options exercisable within 60 days of January 24, 2014. Mr. Beauchamp is our President and Chief Executive Officer and is a director. For a discussion of our material relationships with Mr. Beauchamp, see the section titled "Certain Relationships and Related Party Transactions."

(5) Includes 336,500 shares of restricted stock that will vest in full upon the completion of this offering and 112,500 shares issuable upon the exercise of options exercisable within 60 days of January 24, 2014. Mr. Haske is our Senior Vice President of Sales & Marketing. For a discussion of our material relationships with Mr. Haske, see the section titled "Certain Relationships and Related Party Transactions."

(6) Includes 976,229 shares issuable upon the exercise of options exercisable within 60 days of January 24, 2014.

## DESCRIPTION OF CAPITAL STOCK

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

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

### Common Stock

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

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

### Preferred Stock

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

### Registration Rights

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

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

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

***Demand Registration Rights***

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

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

***Piggyback Registration Rights***

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

***Short-Form Registration Rights***

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

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

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

***Expenses of Registration***

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

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

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

***Amended and Restated Certificate of Incorporation***

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

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

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

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

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

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

*Directors Removed Only for Cause.* Our amended and restated certificate of incorporation provides for the removal of a director only with cause and by the affirmative vote of the holders of at least $66^2/_3\%$ of the shares then entitled to vote at an election of our directors.

*Amendment of Charter Provisions.* The amendment of the provisions in our amended and restated certificate of incorporation requires approval by holders of at least $66^2/_3\%$ of our outstanding capital stock entitled to vote generally in the election of directors (in addition to any rights of the holders of our outstanding capital stock to vote on such amendment under the Delaware General Corporation Law). The amendment of the provisions in our amended and restated bylaws requires approval by either a majority of our board of directors or holders of at least $66^2/_3\%$ of our outstanding capital stock entitled to vote generally in the election of directors (in addition to any rights of the holders of our outstanding capital stock to vote on such amendment under the Delaware General Corporation Law).

***Delaware Anti-Takeover Statute***

We are subject to Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions of publicly held companies. This law provides that a specified person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the outstanding voting stock of a publicly held Delaware corporation, or an interested stockholder, may not engage in business combinations with the corporation for a period of three years after the date on which the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in advance in a manner prescribed by Delaware law. The law does not include interested stockholders prior to the time our common stock is listed on the NASDAQ Global Select Market. The law defines the term "business combination" to include mergers, asset sales and other transactions in which the interested stockholder receives or could receive a financial benefit on other than a pro rata basis with other stockholders. This provision has an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging takeover attempts that might result in a premium over the market price for the shares of our common stock. With approval of our

stockholders, we could amend our amended and restated certificate of incorporation in the future to avoid the restrictions imposed by this anti-takeover law.

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

**Transfer Agent and Registrar**

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

**Listing**

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

## SHARES ELIGIBLE FOR FUTURE SALE

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

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

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

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

### Lock-Up Agreements and Obligations

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

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

### 10b5-1 Plans

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

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

**Rule 144**

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

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

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

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

**Rule 701**

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

**Registration Rights**

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

**Form S-8 Registration Statements**

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

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

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

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

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

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

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

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

**Dividends**

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

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

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

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

**Gain on Disposition of Common Stock**

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

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

- The non-U.S. holder is an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or

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

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

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

**Backup Withholding and Information Reporting**

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

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

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

**Recent Legislation Relating to Foreign Accounts**

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

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

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

**U.S. Federal Estate Tax**

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

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

## UNDERWRITING

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

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

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

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

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

### Commission and Discounts

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

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

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

| | | Total Fees | |
|---|---|---|---|
| | Per share | Without Exercise of Option to Purchase Additional Shares | With Full Exercise of Option to Purchase Additional Shares |
| Discounts and commissions paid by us | $ | $ | $ |
| Discounts and commissions paid by the selling stockholders | | | |

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

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

**Option to Purchase Additional Shares**

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

**No Sales of Similar Securities**

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

**Price Stabilization, Short Positions and Penalty Bids**

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

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

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

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

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

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

**Listing**

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

**Pricing of this Offering**

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

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

- Estimates of our business potential.

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

**Electronic Offer, Sale and Distribution of Shares**

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

**Other Relationships**

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

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

**Notice to Investors in the European Economic Area**

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

- To legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

- To any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

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

- In any other circumstances falling within Article 3(2) of the Prospectus Directive,

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

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

**Notice to Investors in the United Kingdom**

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

**Notice to Prospective Investors in Hong Kong**

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

**Notice to Prospective Investors in Singapore**

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

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

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

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

- A trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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

- To an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than $200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

- Where no consideration is or will be given for the transfer; or

- Where the transfer is by operation of law.

**Notice to Prospective Investors in Switzerland**

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

**Notice to Prospective Investors in Qatar**

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

**Notice to Prospective Investors in Saudi Arabia**

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

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

**Notice to Prospective Investors in the United Arab Emirates**

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

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

**Notice to Prospective Investors in the Dubai International Financial Centre**

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

**Notice to Prospective Investors in Australia**

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

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

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

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

**Notice to Prospective Investors in Japan**

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

## LEGAL MATTERS

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

## EXPERTS

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

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Index to Consolidated Financial Statements**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders
Paylocity Holding Corporation:

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

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

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

/s/ KPMG LLP

Chicago, Illinois
December 5, 2013

**PAYLOCITY HOLDING CORPORATION**

**Consolidated Balance Sheets**

**As of June 30, 2011, 2012 and 2013**

**(in thousands)**

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

See accompanying notes to consolidated financial statements.

**PAYLOCITY HOLDING CORPORATION**

**Consolidated Statements of Operations**

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

**(in thousands)**

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

**PAYLOCITY HOLDING CORPORATION**

**Consolidated Statements of Cash Flows**

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

**(in thousands)**

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

See accompanying notes to consolidated financial statements.

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements**

**(all amounts in thousands, except per share data)**

## (1) Organization and Description of Business

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

## (2) Summary of Significant Accounting Policies

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

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

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

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

### (b) *Concentrations of Risk*

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

### (c) *Cash and Cash Equivalents*

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(2) Summary of Significant Accounting Policies (Continued)**

(d) ***Accounts Receivable***

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

Activity in the allowance for doubtful accounts was as follows:

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

(e) ***Prepaid expenses and other assets***

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

(f) ***Property and Equipment and Long-Lived Assets***

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(2) Summary of Significant Accounting Policies (Continued)**

(g) ***Internal-Use Software***

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

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

(h) ***Deferred Rent***

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

(i) ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(2) Summary of Significant Accounting Policies (Continued)**

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

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties as an element of income tax expense.

(j) ***Revenue Recognition***

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

The Company derives its revenue predominantly from recurring fees and non-recurring service fees. Recurring fees are collected under agreements for payroll, timekeeping, HR-related cloud-based computing services and monthly time clock rentals, all of which are generally cancellable by the client on 60 days' notice or less. Non-recurring service fees consist mainly of implementation and custom reporting services. Such fees are billed to clients and revenue is recorded upon completion of the service. The Company's agreements do not include general rights of return and do not provide clients with the right to take possession of the software supporting the services being provided. As such, the agreements are accounted for as service contracts.

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

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

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

- Timekeeping recording and reporting services, including time clock rentals, delivered on a monthly basis, and

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(2) Summary of Significant Accounting Policies (Continued)**

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

For each agreement, the Company evaluates whether the individual deliverables qualify as separate units of accounting. If one or more of the deliverables does not have standalone value upon delivery, which is typical of the payroll and human capital management ("HCM") services our customers contract for, the deliverables that do not have standalone value are generally combined and treated as a single unit of accounting by frequency of occurrence for the product category involved such as biweekly payroll or monthly timekeeping services. Revenues for arrangements treated as a single unit of accounting are generally recognized within the same month that the services are rendered given that the agreements are cancellable with 60 days' or less notice.

In determining whether implementation services can be accounted for separately from recurring revenues, the Company considers the nature of the implementation services and the availability of the implementation services from other vendors. The Company was able to establish standalone value for implementation activities based on the activity of third-party vendors that perform these services and accounts for such implementation services separate from the recurring revenues.

If the recurring services have standalone value upon delivery, the Company accounts for each separately and revenues are recognized as services are delivered with allocation of consideration based on the relative selling price method as established in ASU 2009-13. That method requires the selling price of each element in a multiple-deliverable arrangement to be based on, in descending order: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of fair value ("TPE") or (iii) management's best estimate of the selling price ("BESP").

The Company is not able to establish VSOE because the deliverables are sold across an insufficiently narrow range of prices on a stand-alone basis and is also not able to establish TPE because no third-party offerings are reasonably comparable to the Company's offerings. The Company thus established its BESP by service offering, requiring the use of significant estimates and judgment. The Company considers numerous factors, including the nature of the deliverables themselves; the geography of the sale; and pricing and discounting practices utilized by the Company's sales force. Arrangement consideration is allocated to each deliverable based on the established BESP and subject to the limitation that because the arrangements are cancellable with 60 days' or less notice, recurring revenue is not allocated to any deliverable until the consideration has been earned, typically with each payroll cycle or monthly, depending on the service.

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(2) Summary of Significant Accounting Policies (Continued)**

(k) ***Cost of Revenues***

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

(l) ***Advertising***

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

(m) ***Stock Option Plan***

The Company recognizes all employee stock-based compensation as a cost in the financial statements. Equity-classified awards are measured at the grant date fair value of the award and expense is recognized, net of assumed forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award. The Company estimates grant date fair value using the Black-Scholes option-pricing model and periodically updates the assumed forfeiture rates for actual experience over their vesting terms.

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

(n) ***Commitments and Contingencies***

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

(o) ***Segment Information***

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

(p) ***Recently Issued Accounting Standards***

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(3) Funds Held for Clients and Client Fund Obligations**

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

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

**(4) Fair Value Measures**

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(5) Software Developed for Internal Use**

Capitalized software and accumulated amortization were as follows:

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

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

**(6) Property and Equipment**

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

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

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

**(7) Accrued Expenses**

The components of accrued expenses are as follows:

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(8) Leases**

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

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

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

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

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

| **Year ending June 30:** | |
|---|---|
| 2014 | $ 2,367 |
| 2015 | 3,225 |
| 2016 | 3,337 |
| 2017 | 2,900 |
| 2018 | 2,906 |
| Later years, through 2020 | 2,970 |
| Total minimum lease payments | $ 17,705 |

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

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

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

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

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

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

## (10) Income Taxes

(a) ***Income Taxes***

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

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

(b) ***Tax Rate Reconciliation***

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(10) Income Taxes (Continued)**

(c) ***Components of Deferred Tax Assets and Liabilities***

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

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(10) Income Taxes (Continued)**

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

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

**(11) Stockholders' Equity (Deficit)**

***Common Stock***

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

**(12) Redeemable Convertible Preferred Stock**

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(12) Redeemable Convertible Preferred Stock (Continued)**

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

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(12) Redeemable Convertible Preferred Stock (Continued)**

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

**(13) Benefit Plans**

(a) ***Equity Incentive Plan***

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

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(13) Benefit Plans (Continued)**

Stock option activity during the periods indicated is as follows:

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

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

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

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

(b) ***401(k) Plan***

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

## (14) Commitments and Contingencies

(a) ***Employment Agreements***

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

(b) ***Litigation***

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

(c) ***Reseller Agreements***

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

## (15) Earnings Per Share

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

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

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

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(15) Earnings Per Share (Continued)**

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

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

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

**(16) Related Party Transactions**

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(17) Subsequent Events**

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Consolidated Balance Sheets**

**As of June 30 and December 31, 2013**

**(in thousands)**
**(unaudited)**

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

See accompanying notes to unaudited consolidated financial statements.

**PAYLOCITY HOLDING CORPORATION**

**Consolidated Statements of Operations**

**For the six months ended December 31, 2012 and 2013**

**(in thousands, except per share data)**

**(unaudited)**

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

See accompanying notes to unaudited consolidated financial statements.

**PAYLOCITY HOLDING CORPORATION**

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

**For the six-month period ended December 31, 2013**

**(in thousands)**

**(unaudited)**

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

See accompanying notes to the unaudited consolidated financial statements.

**PAYLOCITY HOLDING CORPORATION**

**Consolidated Statements of Cash Flows**

**For the six months ended December 31, 2012 and 2013**

**(in thousands)**

**(unaudited)**

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

See accompanying notes to unaudited consolidated financial statements.

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements**

**(all amounts in thousands, except per share data)**

**(unaudited)**

## (1) Organization and Description of Business

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

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

## (2) Summary of Significant Accounting Policies

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

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

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

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

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(2) Summary of Significant Accounting Policies (Continued)**

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

(b) ***Summary of Significant Accounting Policies***

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

(c) ***Interim Unaudited Consolidated Financial Information***

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

(d) ***Use of Estimates***

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

(e) ***Income Taxes***

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

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(2) Summary of Significant Accounting Policies (Continued)**

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

(f) ***Deferred Offering Costs***

Deferred offering costs, consisting of legal, accounting, and other fees and costs relating to the initial public offering are capitalized. The deferred offering costs will be offset against the proceeds received from the initial public offering. In the event the offering is no longer deemed probable, all of the deferred offering costs will be expensed. There was $0 and $1,561 in deferred offering costs classified as other current assets as of June 30 and December 31, 2013, respectively.

(g) ***Recently Issued Accounting Standards***

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on the Company's consolidated financial statements upon adoption.

**(3) Balance Sheet Information**

The following tables provide details of selected consolidated balance sheet items:

Capitalized software and accumulated amortization were as follows:

| | June 30, 2013 | December 31, 2013 |
|---|---|---|
| Internally developed software | $ 15,189 | $ 17,048 |
| Accumulated amortization | (12,575) | (13,804) |
| Capitalized software, net | $ 2,614 | $ 3,244 |

Amortization of capitalized internal-use software costs was $1,595 and $1,229 for the six months ended December 31, 2012 and 2013, respectively and is included in Cost of Revenues-Recurring Revenues.

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(3) Balance Sheet Information (Continued)**

Property and equipment consist of the following:

| | June 30, 2013 | December 31, 2013 |
|---|---|---|
| Office equipment | $ 1,350 | $ 1,346 |
| Computer equipment | 4,665 | 6,456 |
| Furniture and fixtures | 1,433 | 1,778 |
| Automobiles | 36 | 36 |
| Software | 3,791 | 4,404 |
| Leasehold improvements | 3,917 | 4,887 |
| Time clocks rented by clients | 1,649 | 1,693 |
| | 16,841 | 20,600 |
| Accumulated depreciation and amortization | (8,255) | (9,610) |
| Property and equipment, net | $ 8,586 | $ 10,990 |

Depreciation expense amounted to $1,138 and $1,695 for the six months ended December 31, 2012 and 2013, respectively.

The components of accrued expenses were as follows:

| | June 30, 2013 | December 31, 2013 |
|---|---|---|
| Accrued payroll and personnel costs | $ 5,549 | $ 5,629 |
| Reseller fees | 259 | 372 |
| Other | 986 | 1,387 |
| Total Accrued expenses | $ 6,794 | $ 7,388 |

**(4) Stockholder's Equity (Deficit)**

***Common Stock***

Holders of common stock are entitled to one vote per share and to receive dividends. The holders have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common stock is subordinate to the redeemable convertible preferred stock with respect to dividend rights and rights upon liquidation, winding up and dissolution of the Company.

**(5) Redeemable Convertible Preferred Stock**

The Company has two series of Redeemable Convertible Preferred Stock, Series A and Series B.

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(5) Redeemable Convertible Preferred Stock (Continued)**

The Series A Redeemable Convertible Preferred Stock, with a par value of $0.001 per share, has a liquidation preference senior to the common stock. In the event of liquidation as defined in the Company's charter, the Series A Redeemable Convertible Preferred Stock is entitled to a liquidation preference equal to the original issue price of each respective share of Series A Redeemable Convertible Preferred Stock plus unpaid and accrued and declared dividends. The liquidation amount of the Series A Redeemable Convertible Preferred Stock is capped at 2.25 times the original issue price of the Series A Redeemable Convertible Preferred Stock. Series A Redeemable Convertible Preferred Stockholders are entitled to a 6% cumulative preferred dividend computed on the contributed investment of $9,500 payable when declared by the Company. No dividends may be declared and paid on the Company's common stock until such time as the Company has paid in full any dividends actually accrued on such Redeemable Convertible Preferred Stock. No such dividends have been declared as of June 30 and December 31, 2013. Cumulative unpaid preferred dividends total approximately $3,310 and $3,694 and were $0.35, and $0.39 per share of Series A Redeemable Convertible Preferred Stock as of June 30 and December 31, 2013, respectively. Proceeds from the issuance were offset by issuance costs of $161.

On June 29, 2012, the Company authorized 8,500 shares of $0.001 par value Series B Redeemable Convertible Preferred Stock and issued 8,400 shares at approximately $3.25 a share to investors. Proceeds from the issuance were used to redeem common stock.

The Series B Redeemable Convertible Preferred Stock, with a par value of $0.001 per share, has a liquidation preference senior to the common stock and is pari passu with the Series A Redeemable Convertible Preferred Stock. In the event of liquidation as defined in the Company's charter, the holders of Series B Redeemable Convertible Preferred Stock are entitled to a liquidation preference equal to original issue price of each respective share of Series B Redeemable Convertible Preferred Stock plus unpaid and accrued and declared dividends. If such liquidation occurs on or before the second anniversary of the initial issuance of the Series B Redeemable Convertible Preferred Stock, then the Series B Redeemable Convertible Preferred Stockholder is entitled to an additional amount equal to 10% of the original issue price on each outstanding share of Series B Redeemable Convertible Preferred Stock per annum. Series B Redeemable Convertible Preferred Stockholders are entitled to an 8% cumulative preferred dividend computed on the investment amount of $27,284 payable when declared by the Company. No dividends may be declared and paid on the Company's common stock until such time as the Company has paid in full any dividends actually accrued on such Preferred Stock. No such dividends have been declared as of June 30 and December 31, 2013. Cumulative unpaid preferred dividends totaled approximately $2,190 and $3,367 and were $0.26 and $0.40 per share of Series B Redeemable Convertible Preferred Stock as of December 31, 2012 and 2013, respectively. Proceeds from the issuance were offset by issuance costs of $50.

The Series A and B Redeemable Convertible Preferred Stockholders (together the "Preferred Stockholders") have the right to vote on certain corporate matters on an as converted basis with the common stock as a single class. In addition to the preferential cumulative dividends, holders of Series A and Series B Redeemable Convertible Preferred Stock are entitled to receive, on an

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(5) Redeemable Convertible Preferred Stock (Continued)**

if-converted basis, when set aside or paid by the Company, any dividends on the Company's common stock. At any time, the Preferred Stockholders can convert all or any portion of such shares into the aggregate number of shares of common stock at the respective conversion rate, as defined in the agreement, currently one-for-one. Upon the closing of the sale of common stock to the public at a price of at least $5.6842, which also must result in at least $50,000 of gross proceeds, the Series A and Series B Redeemable Convertible Preferred Stock would automatically convert into common stock at the respective conversion rate, as defined in the agreement, currently one-for-one.

At any time following the third anniversary of the initial issuance of the Series B Redeemable Convertible Preferred Stock, the majority holders of Series A and Series B Redeemable Convertible Preferred Stock may require the Company to redeem all of the Series A and Series B Redeemable Convertible Preferred Stock upon notice to the Company. Upon such an occurrence, the Company will reclassify as a liability any remaining Series A and Series B Redeemable Convertible Preferred Stock and adjust their carrying amount to fair market value in accordance with FASB ASC 480-10-55-11 *Distinguishing Liabilities from Equity*. However, this redemption feature terminates upon the conversion of the Series A and Series B Redeemable Convertible Preferred Stock into Common Stock, the successful completion of a qualified IPO or the closing of a deemed liquidation event as described in the Company's Certificate of Incorporation. As a result of these features of the Series A and Series B Redeemable Convertible Preferred Stock, the Company concluded that the likelihood of the Series A and Series B Redeemable Convertible Preferred Stock becoming redeemable was not probable. As such, no adjustment to the carrying value of the Redeemable Convertible Preferred Shares was required.

**(6) Benefit Plans**

(a) ***Equity Incentive Plan***

The Company has established the 2008 Equity Incentive Plan (the "Plan"). The Plan authorizes the granting of options to purchase common stock and other equity incentives at the discretion of the Company's Board of Directors to certain employees. Under the Plan, the exercise price of each option approximates the fair value of a share of common stock on the grant date. As a privately owned company, the fair value of a share of common stock is determined contemporaneously with the award by the Company's board of directors, including by reference to valuation assessments by third-party valuation consultants utilizing the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. Options are granted at various dates, have a maximum term of ten years, and typically vest over four years.

The Company recorded $261 and $349 of stock based compensation expense for the six months ended December 31, 2012 and 2013, respectively. Stock based compensation expense is recorded in General and Administrative expense to coincide with the salaries and benefits of the individuals participating in the plan.

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(6) Benefit Plans (Continued)**

The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions for 2012 and 2013 grants are provided in the following table. The Company uses company-specific historical data to estimate the expected term of the option, such as employee option exercise and employee post-vesting departure behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since the Company's shares are not publicly traded and its shares are rarely traded privately, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant.

| | Period ended December 31, | |
|---|---|---|
| | 2012 | 2013 |
| Valuation assumptions: | | |
| Expected dividend yield | 0% | 0% |
| Expected volatility | 30.7% | 29.5% |
| Expected term (years) | 4.0 | 4.0 |
| Risk-free interest rate | 0.61% | 0.52% |

Stock option activity during the periods indicated is as follows:

| | Number of shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| Balance at July 1, 2013 | 2,789 | $ 2.17 | 8.22 | $ 7,028 |
| Granted | 775 | 4.69 | 9.53 | |
| Exercised | — | — | — | |
| Balance at December 31, 2013 | 3,564 | $ 2.72 | 8.11 | $ 7,028 |
| Options exercisable at December 31, 2013 | 1,249 | $ 1.66 | 7.26 | $ 3,788 |
| Options vested and expected to vest at December 31, 2013 | 2,990 | $ 2.53 | 7.96 | $ 6,460 |

The weighted average grant date fair value of options granted during the six-month period ended December 31, 2012 and 2013 was $0.81 and $1.14, respectively. The total intrinsic value of options exercised during the six month period ended December 31, 2012 was $87. There were no options exercised in the six month period ended December 31, 2013.

At December 31, 2013, there was $938 of total unrecognized compensation cost related to unvested stock options granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.11 years.

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(6) Benefit Plans (Continued)**

The Company may also grant Restricted Stock Awards ("RSAs") under the Plan with terms determined at the discretion of the Company's Board of Directors. The RSAs vest and become exercisable upon occurrence of a change in control or initial public offering, as defined in the Plan. The holders of RSAs have similar rights to common stockholders. As of December 31, 2012 and 2013 the Company had 404 RSAs outstanding to certain employees. No compensation expense is reflected in the accompanying financial statements for RSAs as such expense will be recorded upon vesting.

The Company currently uses authorized and unissued shares to satisfy option exercises and share award vesting. As of December 31, 2013, the Company authorized 4,512 shares of common stock reserved for issuance under the plan, of which 444 are available for future grants.

(b) ***401(k) Plan***

The Company maintains a 401(k) plan with a safe harbor matching provision that covers all eligible employees. The Company matches 50% of the employees' contributions up to 6% of their gross pay. Contributions were $297 and $477 for the six months ended December 31, 2012 and 2013, respectively.

**(7) Commitments and Contingencies**

***Reseller Agreements***

The Company has agreements with two resellers. The initial term of the first reseller agreement commenced in February 2007 and expires in February 2016 unless renewed. The initial term of the second reseller agreement commenced in June 2009 and expires in June 2016 unless renewed. Each of the Company's reseller agreements provides that the Company is required upon a termination of the agreement to acquire the assets of the reseller.

The first reseller agreement provides that either party may terminate the agreement by electing not to renew the agreement beyond its original term. The Company, but not the reseller, also has the right to terminate the agreement at any time following the completion of an initial public offering by the Company. If a termination were to occur as a result of the Company's election following the completion of this offering, the purchase price of the assets would be equal to three times the net revenues of the reseller for the three months preceding the termination effective date times four plus the annual W-2 revenue of the reseller for the 12 months preceding the termination effective date. The Company paid the first reseller $1.0 million and $1.4 million during the six-month periods ended December 31, 2012 and 2013, respectively.

The second reseller agreement provided that the reseller may terminate the agreement by providing nine months' prior notice or upon an initial public offering by the Company. The Company amended this agreement in December of 2013 to provide that the reseller may not give a nine-month termination notice until after the earlier of (i) six months following the closing of an initial public offering by the Company or (ii) December 31, 2014. In addition, the Company, but not the reseller, now has the right to terminate the agreement at any time after the date that is six months

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(7) Commitments and Contingencies (Continued)**

following the completion of an initial public offering by the Company. If a termination were to occur, the purchase price of the assets would be equal to 3.3 times the net revenues of the reseller for the 12 months preceding the termination effective date. The Company paid the second reseller $0.8 million and $1.0 million during the six-month periods ended December 31, 2012 and 2013, respectively.

**(8) Earnings Per Share**

Basic and diluted net income (loss) per common share is presented in conformity with the two-class method required for participating securities. Immediately prior to the completion of the Company's Initial Public Offering, all shares of outstanding Preferred Stock are expected to automatically convert into shares of the Company's common stock. Holders of Series A and holders of Series B Preferred Stock are entitled to liquidation preferences as outlined in Note 4 to the financial statements payable prior and in preference to any dividends on any shares of the Company's common stock.

In the event a dividend is paid on common stock, the holders of Preferred Stock are entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as-if converted basis). The holders of the Company's Preferred Stock do not have a contractual obligation to share in the losses of the Company. The Company considers its Preferred Stock to be participating securities and, in accordance with the two-class method, earnings allocated to Preferred Stock and the related number of outstanding shares of Preferred Stock have been excluded from the computation of basic and diluted net income (loss) per common share.

Under the two-class method, net income (loss) attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period Redeemable Convertible Preferred Stock cumulative dividends, between common stock and Redeemable Convertible Preferred Stock. In computing diluted net income (loss) attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities.

Basic net loss per common share is computed using the weighted-average number of common shares outstanding during the period. Since the Series A and Series B Redeemable Convertible Preferred Stock are entitled to participate should any common stock dividends be declared but are not obligated to participate in any losses generated by the Company, basic net income per share is computed using the weighted-average number of common shares outstanding during the period plus the Series A and Series B Redeemable Convertible Preferred Stock on a weighted-average basis.

Diluted net loss per share is computed using the weighted-average number of common shares outstanding during the period and, if dilutive, potential common shares outstanding during the period. Since the Series A and Series B Redeemable Convertible Preferred Stock are entitled to participate should any common stock dividends be declared but are not obligated to participate in any losses generated by the Company, diluted net income per share is computed using the weighted-average number of common shares plus the Series A and Series B Redeemable

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(8) Earnings Per Share (Continued)**

Convertible Preferred Stock on a weighted-average basis and, if dilutive, potential common shares outstanding during the period. The Company's potential common shares consist of the Incremental common shares issuable upon the exercise of stock options. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method.

Restricted Stock Awards are excluded from both basic and diluted earnings per share calculations as the vesting conditions have not been met as of December 31, 2013.

The following table presents the calculation of basic and diluted net loss per share:

| | Six months ended December 31, | |
|---|---|---|
| | 2012 | 2013 |
| Basic net loss per share: | | |
| Numerator: | | |
| Net loss | $ (1,032) | $ (1,556) |
| Less: Preferred dividend rights attributable to participating securities | (1,454) | (1,562) |
| Net loss attributable to common stockholders | $ (2,486) | $ (3,118) |
| Denominator: | | |
| Weighted-average shares used in computing net loss per share attributable to common stockholders: | | |
| Basic (in thousands) | 47,983 | 47,983 |
| Weighted-average effect of potentially dilutive shares: | | |
| Employee stock options (in thousands) | — | — |
| Diluted (in thousands) | 47,983 | 47,983 |
| Net loss per share attributable to common stockholders: | | |
| Basic | $ (0.05) | $ (0.06) |
| Diluted | $ (0.05) | $ (0.06) |

Potentially dilutive employee stock options were omitted from the calculations because the effect of their inclusion was antidilutive. Series A and Series B Redeemable Convertible Preferred Stock were omitted from the basic and diluted net loss per share calculations because Stockholders of those issuances are not obligated to participate in the losses generated by the Company as enumerated in the Company's Articles of Incorporation.

**Pro Forma Net Loss Per Common Share**

The numerator and denominator used in computing the unaudited pro forma net loss per common share for the six months ended December 31, 2013 have been adjusted to assume the conversion of all outstanding shares of redeemable convertible preferred stock into common stock as well as the vesting of the RSAs as of the beginning of the period presented or at the time of

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(8) Earnings Per Share (Continued)**

issuance, if later. Pro forma net loss per share does not give effect to potential dilutive securities where the impact would be anti-dilutive. Pro forma net loss per common share also excludes $351 of compensation expense associated with the automatic vesting of employee RSAs which the Company would have recorded upon successful completion of the qualifying event on December 31, 2013.

| | Six months ended December 31, 2013 |
|---|---|
| Numerator: | |
| Net loss | $ (1,556) |
| Net loss attributable to common stockholders | $ (1,556) |
| Denominator: | |
| Historical denominator for basic and diluted net loss per common share—weighted average common shares (in thousands) | 47,983 |
| Plus: assumed conversion of redeemable convertible preferred stock to common stock and vesting of RSAs (in thousands) | 18,304 |
| Denominator for pro forma basic and diluted net loss per common share (in thousands) | 66,287 |
| Pro forma basic and diluted net loss per common share | $ (0.02) |

**(9) Line of Credit**

On November 27, 2013, the Company's line of credit was increased to $3,500 and the due date was extended to December 31, 2015. There were no borrowings against the line of credit as of June 30 and December 31, 2013.

**(10) Income Taxes**

The Company's effective tax rate of 44.3% for the six months ended December 31, 2013 differed from statutory rates primarily due to the benefits from federal and state research and development credits available to the Company and expenses not deductible for income tax reporting purposes. The Company's effective tax rate of 39.8% for the six months ended December 31, 2012 differed from statutory rates primarily due to state research and development credits available to the Company and expenses not deductible for income tax reporting purposes. No federal research and development credits were available to the Company for the six months ended December 31, 2012 given the lack of authorizing legislation during that period.

**PAYLOCITY HOLDING CORPORATION**

**Notes to the Consolidated Financial Statements (Continued)**

**(all amounts in thousands, except per share data)**

**(unaudited)**

**(11) Related Party Transactions**

The Company purchased sales leads from an entity owned by one of the stockholders in the amount of approximately $424 and $231 for the six months ended December 31, 2012 and 2013, respectively. The Company provided no management guidance to the entity and had no equity interest in the entity, no obligation or intention to fund any of the entity's operational shortfalls, and no right to any operational surpluses generated by the entity. Accounts payable due to this entity were approximately $65 and $0 of June 30 and December 31, 2013, respectively.

As of October 14, 2013, the Company hired substantially all of the employees of, and no longer purchases sales leads from, the sales lead generation entity described above.

**(12) Subsequent Events**

The Company has evaluated subsequent events from the balance sheet date through January 30, 2014, the date at which the financial statements were available to be issued.

**Shares**

# Paylocity Holding Corporation

**Common Stock**

| | | |
|---|---|---|
| **Deutsche Bank Securities** | **BofA Merrill Lynch** | **William Blair** |
| **JMP Securities** | **Raymond James** | **Needham & Company** |

## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

### Item 13. *Other Expenses of Issuance and Distribution**

The following table sets forth the costs and expenses, other than the underwriting discounts and commissions payable by us, in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee, the Financial Industry Regulatory Authority, or FINRA, filing fee and the NASDAQ Global Select Market listing fee.

| | |
|---|---|
| SEC registration fee | |
| FINRA filing fee | |
| NASDAQ Global Select Market listing fee | |
| Blue sky fees and expenses | |
| Transfer agent and registrar fees | |
| Accounting fees and expenses | |
| Legal fees and expenses | |
| Printing and engraving costs | |
| Miscellaneous expenses | |
| Total | $ |

* To be completed by amendment.

### Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act.

As permitted by the Delaware General Corporation Law, our restated certificate of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, except for liability:

- For any breach of the director's duty of loyalty;
- For acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- Under section 174 of the Delaware General Corporation law regarding unlawful dividends and stock purchases; or
- For any transaction for which the director derived an improper personal benefit.

As permitted by the Delaware General Corporation Law, our bylaws provide that:

- We are required to indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to very limited exceptions;
- We may indemnify our other employees and agents to the fullest extent permitted by the Delaware General Corporation Law, subject to very limited exceptions;
- We are required to advance expenses, as incurred, to our directors and officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to very limited exceptions;

- We may advance expenses, as incurred, to our employees and agents in connection with a legal proceeding; and
- The rights conferred in the bylaws are not exclusive.

We intend to enter into indemnity agreements with each of our current directors and officers to give these directors and officers additional contractual assurances regarding the scope of the indemnification set forth in our restated certificate of incorporation and to provide additional procedural protections. At present, there is no pending litigation or proceeding involving our directors, officers or employees regarding which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

The indemnification provisions in our restated certificate of incorporation and amended and restated bylaws and the indemnity agreements entered into between us and each of our directors and officers may be sufficiently broad to permit indemnification of the our directors and officers for liabilities arising under the Securities Act.

Reference is also made to the underwriting agreement, which provides for the indemnification of our officers, directors and controlling persons against certain liabilities.

We are seeking to obtain directors' and officers' liability insurance and expect the insurance to include coverage for securities matters.

## Item 15. Recent Sales of Unregistered Securities

Since October 1, 2010, we have sold and issued the following unregistered securities:

- In June 2012, we issued 8,399,899 shares of our Series B preferred stock to a total of 8 accredited investors at a price of $3.2481 per share resulting in an aggregate purchase price of $27,283,712.
- From October 1, 2010 through December 31, 2013, we issued options to our employees to purchase an aggregate of 2,851,500 shares of our common stock under our 2008 Equity Incentive Plan, with exercise prices ranging from $1.52 to $4.69 per share.

No underwriters were involved in the foregoing sales of securities. The issuances of the securities described above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701.

## Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

| Exhibit Number | Description |
|---|---|
| 1.1* | Form of Underwriting Agreement. |
| 2.1 | Share Exchange Agreement, dated November 7, 2013. |
| 3.1 | Certificate of Incorporation of the Registrant, as currently in effect. |
| 3.2* | Amended and Restated Certificate of Incorporation of the Registrant, to be effective upon the closing of the offering. |
| 3.3 | Bylaws of the Registrant, as currently in effect. |

| Exhibit Number | Description |
|---|---|
| 3.4* | Form of Amended and Restated Bylaws of the Registrant, to be effective upon closing of the offering. |
| 4.1 | Amended and Restated Investor Rights Agreement, dated June 29, 2012. |
| 4.2 | Amended and Restated Right of First Refusal and Co-Sale Agreement, dated June 29, 2012. |
| 4.3 | Amended and Restated Voting Agreement, dated June 29, 2012. |
| 4.4 | Promissory Note, dated March 9, 2011, payable to Commerce Bank & Trust Company. |
| 4.5.1 | Revolving Line of Credit Note, dated March 9, 2011, payable to Commerce Bank & Trust Company. |
| 4.5.2 | Allonge to Revolving Line of Credit Note, dated November 27, 2013. |
| 5.1* | Opinion of DLA Piper LLP (US). |
| 10.1 | Loan and Security Agreement by and among Commerce Bank & Trust Company and Paylocity Corporation, dated May 5, 2009. |
| 10.1.1 | First Amendment to Loan and Security Agreement, dated March 9, 2011. |
| 10.2 | Form of Indemnification Agreement for directors and officers. |
| 10.3 | 2008 Equity Incentive Plan and forms of agreement thereunder. |
| 10.3.1 | First Amendment to the 2008 Equity Incentive Plan, dated August 5, 2010. |
| 10.3.2 | Second Amendment to the 2008 Equity Incentive Plan, dated June 29, 2012. |
| 10.4* | 2014 Equity Incentive Plan and forms of agreement thereunder. |
| 10.5* | Third Amended and Restated Executive Employment Agreement between Paylocity Corporation and Steven R. Beauchamp, dated , 2014. |
| 10.6 | Employment Agreement between Paylocity Corporation and Steven I. Sarowitz, effective July 1, 2013. |
| 10.7* | Second Amended and Restated Executive Employment Agreement between Paylocity Corporation and Michael R. Haske, dated , 2014. |
| 10.8 | Office Lease between 3850 Wilke LLC and Paylocity Corporation, dated January 12, 2007. |
| 10.8.1 | Amendment to Office Lease, dated January 5, 2011. |
| 10.8.2 | Amendment to Office Lease, dated May 6, 2013. |
| 10.9* | 2014 Employee Stock Purchase Plan and forms of agreement thereunder. |
| 21.1 | List of subsidiaries of the Registrant. |
| 23.1 | Consent of KPMG LLP, Independent Registered Public Accounting Firm. |
| 23.2* | Consent of DLA Piper LLP (US) (included in Exhibit 5.1). |
| 24.1 | Power of Attorney (see page II-5 to this registration statement on Form S-1). |

* To be filed by amendment.

(b) Financial Statement Schedules

All financial statement schedules are omitted because the information called for is not required or is shown either in the consolidated financial statements or in the notes thereto.

**Item 17. Undertakings**

The registrant hereby undertakes to provide to the underwriters, at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by the registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced in Item 14 of this registration statement or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Arlington Heights, Illinois on the 30th day of January, 2014.

PAYLOCITY HOLDING CORPORATION

By: /s/ STEVEN R. BEAUCHAMP

Steven R. Beauchamp
President and Chief Executive Officer

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Steven R. Beauchamp and Peter J. McGrail and each of them, his or her true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments (including post-effective amendments) to this registration statement together with all schedules and exhibits thereto and any subsequent registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, together with all schedules and exhibits thereto, (ii) act on, sign and file such certificates, instruments, agreements and other documents as may be necessary or appropriate in connection therewith, (iii) act on and file any supplement to any prospectus included in this registration statement or any such amendment or any subsequent registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and (iv) take any and all actions which may be necessary or appropriate to be done, as fully for all intents and purposes as he or she might or could do in person, hereby approving, ratifying and confirming all that such agent, proxy and attorney-in-fact or any of his substitutes may lawfully do or cause to be done by virtue thereof.

**Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated:**

| Name | Title | Date |
|---|---|---|
| /s/ STEVEN R. BEAUCHAMP<br>Steven R. Beauchamp | President and Chief Executive Officer (Principal Executive Officer) and Director | January 30, 2014 |
| /s/ PETER J. MCGRAIL<br>Peter J. McGrail | Chief Financial Officer (Principal Financial and Accounting Officer) | January 30, 2014 |
| /s/ JEFFREY T. DIEHL<br>Jeffrey T. Diehl | Director | January 30, 2014 |

| Name | Title | Date |
|---|---|---|
| /s/ MARK H. MISHLER | | |
| Mark H. Mishler | Director | January 30, 2014 |
| /s/ STEVEN I. SAROWITZ | | |
| Steven I. Sarowitz | Executive Chairman | January 30, 2014 |
| /s/ RONALD V. WATERS, III | | |
| Ronald V. Waters, III | Director | January 30, 2014 |

# SHARE EXCHANGE AGREEMENT

This Share Exchange Agreement (this "***Agreement***") is made and entered into as of November 7, 2013 by and among Paylocity Holding Corporation, a Delaware corporation (the "***Company***"), Paylocity Corporation, an Illinois corporation ("***PC***"), each holder of issued and outstanding shares of PC as listed on Exhibit A hereto (each, a "***Shareholder***" and, collectively, the "***Shareholders***"), and each Key Executive listed on Exhibit B attached hereto.

RECITALS

WHEREAS, the Shareholders collectively own 100% of the issued and outstanding shares of PC, each in the amounts set forth on Exhibit A hereto under the heading "Exchange Shares" (collectively, the "***Exchange Shares***");

WHEREAS, the Company has been formed for the purpose of becoming the parent company of PC;

WHEREAS, the parties desire that the Company acquire 100% of the Exchange Shares from the Shareholders pursuant to the terms and conditions set forth herein (the "***Share Exchange***"), in exchange for the issuance to the Shareholders of shares of the capital stock of the Company, in the amounts and of the classes as set forth on Exhibit A hereto under the heading "Replacement Shares" (the "***Replacement Shares***");

WHEREAS, as a result of the Share Exchange, PC will become a wholly owned subsidiary of the Company, and immediately following the completion of the Share Exchange, the Shareholders will collectively own 100% of the issued and outstanding shares of the Company, in the amounts and of the classes as set forth on Exhibit A hereto under the heading "Company Replacement Shares;" and

WHEREAS, the parties desire that the Company assume the rights and obligations of PC under PC's 2008 Equity Incentive Plan (the "***PC Plan***") and assume 100% of the issued and outstanding options to purchase shares of common stock of PC (the "***PC Options***");

WHEREAS, following the Share Exchange, the parties hereto wish to transfer the right, title and interest in and to the Assigned Contracts set forth on Exhibit D attached hereto (each an "***Assigned Contract***" and collectively, the "***Assigned Contracts***"), from PC to the Company;

WHEREAS, the Share Exchange is intended to qualify as a nontaxable transaction under Section 351 of the Internal Revenue Code of 1986, as amended (the "***Code***");

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the receipt and adequacy of which the parties hereby acknowledge, the parties hereby agree as follows:

**1. AGREEMENT TO EXCHANGE SHARES**.

**1.1. Authorization**. As of the Closing (as defined below), the Company will have authorized the issuance to the Shareholders, pursuant to the terms and conditions of this Agreement, of the full number of Replacement Shares that are to be issued to the Shareholders hereunder.

**1.2. Agreement to Exchange; Full Satisfaction**. On the terms and subject to the conditions set forth herein, effective as of the Closing, each Shareholder hereby transfers, conveys and

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assigns all of such Shareholder's right, title and interest in and to all of the Exchange Shares held by such Shareholders, free and clear of any liens or encumbrances, to the Company, in exchange for newly issued Replacement Shares, all as set forth opposite such Shareholder's name on Exhibit A hereto under the heading "Company Replacement Shares." The Replacement Shares delivered in accordance with the terms hereof shall be deemed to have been delivered in full satisfaction of all rights pertaining to the Exchange Shares.

**2. OMNIBUS ASSIGNMENT**.

**2.1. Assignment**. Effective as of the Closing, (i) PC hereby transfers, assigns, conveys and delivers unto the Company, its successors and permitted assigns, all of PC's right, title and interest in and to the Assigned Contracts (the "***Assignment***"); and (ii) the Company hereby accepts the Assignment and expressly such Assigned Contracts and further assumes the performance of all of the terms, obligations, covenants and conditions imposed upon PC under the Assigned Contracts.

**2.2. Survival**. This Assignment and the obligations of the parties hereunder shall surviving the closing of the Share Exchange.

**2.3. Acknowledgement of Assignment**. Each of the Shareholders and Key Executives party hereto hereby expressly acknowledges and consents to the Assignment.

**2.4. Third Party Rights**. The Assignment and the assumption of the Assigned Contracts by the Company is not intended by the parties hereto to expand the rights or remedies of any party hereto or third-party against the Company as compared to the rights and remedies which such party or third-party (as the case may be) would have had against PC. Nothing herein contained shall, or shall be construed to prejudice the right of the Company to contest any claim or demand with respect to any obligation assumed hereunder and the Company shall have all rights which PC may have or have had to defend or contest any such claim or demand.

**3. CLOSING**.

**3.1. The Closing**. Subject to the satisfaction of the conditions set forth in Section 6 hereof, the Share Exchange of the Replacement Shares for the Exchange Shares will take place at the offices of DLA Piper LLP (US), 401 Congress Avenue, Suite 2500, Austin, Texas 78701, at 9:00 a.m. Central Time, on the date hereof or at such other time and place as the Company and the Shareholders mutually agree upon (which time and place are referred to in this Agreement as the "***Closing***"). At the Closing, (i) the Company will deliver to each Shareholder a certificate representing the number of Replacement Shares that such Shareholder has agreed to acquire hereunder as set forth on Exhibit A hereto, (ii) each Shareholder shall deliver to the Company (a) certificates representing the Exchange Shares held by the Shareholder and (b) a duly executed stock power endorsed in blank.

**4. REPRESENTATIONS AND WARRANTIES OF THE COMPANY**. The Company hereby represents and warrants to each Shareholder the following. The phrase "to the Company's Knowledge" means the actual knowledge, on the date of this Agreement, of Steven Beauchamp and Peter McGrail, following a good faith review of the representations and warranties set forth in this Section 4.

**4.1. Organization, Good Standing, Corporate Power and Qualification**. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite corporate power and authority to own and operate its properties and assets, to execute and deliver this Agreement, to issue the Replacement Shares and securities issuable upon conversion of the Replacement Shares (if any) (such shares, the "***Conversion***



***Shares***"), to carry out the provisions of this Agreement and the Certificate of Incorporation, and to carry on its business as presently conducted. The Company is duly qualified and is authorized to do business and is in good standing as a foreign corporation in all jurisdiction in which the nature of its activities and of its properties (both owned and leased) makes such qualification necessary, except for those jurisdictions in which failure to do so would not have a material adverse effect on the assets, liabilities, financial condition or operations of the Company or the ability of the Company to perform its obligations pursuant to this the Certificate of Incorporation (a "***Material Adverse Effect***").

**4.2. Subsidiaries**. The Company has no Subsidiaries. The term "***Subsidiary***" means any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons (as defined below) performing similar functions are owned directly or indirectly by the Company.

**4.3. Capitalization**.

(a) The authorized capital stock of the Company, immediately prior to the Closing and after giving effect to the Company's Certificate of Incorporation attached hereto as Exhibit C (the "***Certificate of Incorporation***"), consists of (i) 100,000,000 shares of Common Stock, par value $0.001 per share, no shares of which are issued and outstanding (the "***Common Shares***"), and (ii) 18,000,000 shares of Preferred Stock, par value $0.001 per share, 9,500,000 of which are designated as Series A Convertible Preferred Stock, none of which are issued and outstanding, and 8,500,000 of which are designated as Series B Convertible Preferred Stock, none of which are issued and outstanding.

(b) The Company shall assume the PC Plan, pursuant to which 4,511,970 Common Shares have been reserved for issuance to officers, directors, employees and consultants of the Company pursuant to awards thereunder. The PC Plan is the only plan adopted or assumed by the Board of Directors and/or stockholders of the Company providing for the issuance of capital stock or rights to acquire capital stock.

(c) Other than as contemplated by the Assigned Contracts and the assumed PC Options, (1) no subscription, warrant, option, convertible security, or other right (contingent or otherwise) to purchase or otherwise acquire equity securities of the Company is authorized or outstanding, and (2) there is no commitment by the Company to issue shares, subscriptions, warrants, options, convertible securities, or other such rights or to distribute to holders of any of its equity securities any evidence of indebtedness or asset. Other than as provided for in the Certificate of Incorporation, the Company has no obligation (contingent or otherwise) to purchase, redeem or otherwise acquire any of its equity securities or any interest therein or to pay any dividend or make any other distribution in respect thereof.

(d) Except as provided for in the Assigned Contracts, there are no voting trusts or agreements, stockholders' agreements, registration rights agreements, pledge agreements, buy-sell agreements, rights of first refusal, preemptive rights or proxies relating to any securities of the Company to which the Company is a party or, to the Company's Knowledge, to which any other Person is a party.

(e) There are no outstanding or authorized stock appreciation, phantom stock, profit participation or other similar rights with respect to the Company or which otherwise permit the holder thereof to participate in the proceeds of a sale of the Company (regardless of how structured).



(f) The rights, preferences, privileges and restrictions of the Replacement Shares are as stated in the Certificate of Incorporation and such rights, preferences, privileges and restrictions are valid, binding and enforceable and are in accordance with all applicable laws.

(g) Except as contemplated by the Assigned Contracts, no stock plan (including the assumed PC Plan), stock purchase, restricted stock, stock option, employment agreement or other agreement or understanding between the Company and any holder of any equity securities or rights to purchase equity securities provides for mandatory acceleration or other changes in the vesting provisions or other terms of such agreement or understanding as the result of (i) termination of employment (whether actual or constructive); (ii) any merger, consolidated sale of stock or assets, change in control or any other transaction(s) by the Company; (iii) the transactions contemplated by this Agreement; or (iv) the occurrence of any other event or combination of events.

**4.4. Authorization; Binding Obligations**.

(a) All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization of this Agreement, the performance of all obligations of the Company hereunder and thereunder at the Closing, the authorization, sale, issuance and delivery of the Replacement Shares pursuant hereto and the issuance and delivery of the Conversion Shares upon conversion of the convertible Replacement Shares has been taken prior to the Closing.

(b) This Agreement, when executed and delivered by the Company, will be legal, valid and binding obligations of the Company, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights, (ii) for general principles of equity that restrict the availability of equitable remedies, and (iii) to the extent the indemnification provisions contained in Section 2.8 of the Investor Rights Agreement (as defined in Exhibit D attached hereto) may be limited by applicable federal or state securities laws.

**4.5. Valid Issuance of Replacement Shares**. The Replacement Shares have been duly authorized and, when issued in accordance with this Agreement, will be validly issued, fully paid and non-assessable shares of the Company's capital stock, and, except as provided in the Assigned Contracts, will be

free and clear of all liens, charges, restrictions, claims and encumbrances imposed by or through the Company; *provided, however*, that the Replacement Shares may be subject to restrictions on transfer under state and/or federal securities laws, as set forth herein or as otherwise required by such laws at the time a transfer is proposed. The Conversion Shares have been duly reserved for issuance. The Conversion Shares, when so issued and delivered upon conversion of the convertible Replacement Shares, will be duly authorized, validly issued, fully paid and non-assessable shares of the Common Shares, and, except as provided in the Assigned Contracts, will be free and clear of all liens, charges, restrictions, claims and encumbrances imposed by or through the Company; *provided, however*, that the Common Shares may be subject to restrictions on transfer under state and/or federal securities laws, as set forth herein or as otherwise required by such laws at the time a transfer is proposed. Neither the issuance, sale or delivery of the Replacement Shares is, nor will the issuance or delivery of the Conversion Shares upon the conversion of the convertible Replacement Shares be, subject to any preemptive right of stockholders of the Company or to any right of first refusal or other right in favor of any individual, corporation, partnership, joint venture, trust, or unincorporated organization, or a government or any agency or political subdivision thereof (each a "***Person***").

**4.6.** **Governmental Consents and Filings**. Assuming the accuracy of the representations made by the Shareholders in Section 5 of this Agreement, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or



local governmental authority is required on the part of the Company in connection with the consummation of the transactions contemplated by this Agreement, except for (i) the filing of the Certificate of Incorporation, which will have been filed as of the Closing, and (ii) filings pursuant to Regulation D of the United States Securities Act of 1933 (the "***1933 Act***"), and applicable state securities laws, which have been made or will be made in a timely manner.

**5.** **REPRESENTATIONS, WARRANTIES AND CERTAIN AGREEMENTS OF THE SHAREHOLDERS**. Each Shareholder, severally and not jointly, hereby represents and warrants to the Company as of immediately prior to the Closing as follows:

**5.1.** **Authorization**. The Shareholder has all necessary power and authority under all applicable provisions of law to execute and deliver this Agreement and to carry out its provisions. All action on the Shareholder's part required for the lawful execution and delivery of this Agreement have been or will be effectively taken prior to the Closing. Upon their execution and delivery, this Agreement will be a valid and binding obligation of the Shareholder, enforceable in accordance with its terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights, (b) as limited by general principles of equity that restrict the availability of equitable remedies, and (c) to the extent that the enforceability of the indemnification provisions of Section 2.8 of the Investor Rights Agreement may be limited by applicable federal or state securities laws.

**5.2.** **Title to Exchange Shares**. Shareholder has good and marketable title to, and is the legal and beneficial owner of, the Exchange Shares to be exchanged by such Shareholder under this Agreement, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest, subject to satisfaction of the conditions set forth herein. Shareholder agrees not to sell or transfer, or create or subject to any encumbrance, pledge, lien or mortgage, any interest in the Exchange Shares. Shareholder hereby confirms that, as of the Closing, Shareholder has no interest in or rights to securities of PC that are not being exchanged into securities of the Company, and all of Shareholder's interests in and rights to securities of PC have been so exchanged or extinguished.

**5.3.** **Investment Representations**. The Shareholder understands that none of the Replacement Shares have been registered under the 1933 Act. The Shareholder also understands that the Replacement Shares are being offered and sold pursuant to an exemption from registration contained in the 1933 Act based in part upon such Shareholder's representations contained in this Agreement.

**5.4.** **Shareholder Bears Economic Risk**. The Shareholder has substantial experience in evaluating and investing in private placement transactions of securities in companies similar to the Company so that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. The Shareholder must bear the economic risk of this investment indefinitely unless the Replacement Shares are registered pursuant to the 1933 Act, or an exemption from registration is available. The Shareholder understands that the Company has no present intention of registering the Replacement Shares or any shares of the Common Shares. The Shareholder also understands that there is no assurance that any exemption from registration under the 1933 Act will be available and that, even if available, such exemption may not allow the Shareholder to transfer all or any portion of the Replacement Shares under the circumstances, in the amounts or at the times that the Shareholder might propose or desire.

**5.5.** **Exchange for Own Account**. The Shareholder is acquiring the Replacement Shares and the Conversion Shares for the Shareholder's own account for investment only, and not with a view towards distribution, assignment or resale of the Replacement Shares to others or to fractionalization of the Replacement Shares in whole or in part.



**5.6.** **Shareholder Can Protect Its Interest**. The Shareholder represents that by reason of its, or of its management's, business or financial experience, the Shareholder has the capacity to protect its own interests in connection with the transactions contemplated in this Agreement. Further, the Shareholder is aware of no publication of any advertisement in connection with the transactions contemplated in this Agreement.

**5.7.** **Accredited Investor**. The Shareholder is an "accredited investor" within the meaning of Rule 501 of Regulation D, as promulgated under the 1933 Act.

**5.8.** **Company Information**. The Shareholder has received and read certain financial statements and has had an opportunity to discuss the Company's business, management and financial affairs with directors, officers and management of the Company and has had the opportunity to review the Company's operations and facilities. The Shareholder has also had the opportunity to ask questions of and receive answers from, the Company and its management regarding the terms and conditions of this investment. Notwithstanding the foregoing, no such discussion, investigation or review shall limit the representations and warranties of the Company provided herein.

**5.9.** **Rule 144**. The Shareholder acknowledges and agrees that in addition to any requirements under the state securities laws, the Replacement Shares, and, if issued, the Conversion Shares, are "restricted securities" as defined in Rule 144 promulgated under the 1933 Act as in effect from time to time and must be held indefinitely unless they are subsequently registered under the 1933 Act or an exemption from such registration is available. The Shareholder has been advised or is aware of the provisions of Rule 144 as promulgated under the 1933 Act as in effect from time to time ("***Rule 144***"), which permits limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the availability of certain current public information about the Company, the resale occurring following the required holding period under Rule 144, and the number of shares being

sold during any three-month period not exceeding specified limitations. The Shareholder has been further advised that the Company has no present intention of satisfying the current public information requirements of Rule 144, and as a result the Shareholder will be able to rely on Rule 144 only if the Shareholder is not an Affiliate of the Company at the time (or within 90 days prior to the time) of sale and satisfies a one-year holding period requirement.

**5.10.** **Residence**. If the Shareholder is an individual, then such Shareholder resides in the state or province identified in the address of Shareholder set forth on the Exhibit A attached hereto. If the Shareholder is a partnership, corporation, limited liability company or other entity, then the office or offices of Shareholder in which its investment decision was made is located at the address or addresses of Shareholder set forth on Exhibit A attached hereto.

**5.11.** **No General Solicitation**. To the knowledge of the Shareholder, the Replacement Shares have not been offered to the Shareholder by any form of general solicitation or general advertising, including, without limitation, (a) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media, or broadcast over television or radio, or (b) any seminar or meeting whose attendees (including the Shareholder) have been invited by any general solicitation or general advertising.

**5.12.** **Transfer Restrictions**. The Shareholder acknowledges and agrees that the Replacement Shares are subject to restrictions on transfer as set forth in the Investor Rights Agreement.

**5.13.** **No Public Market**. The Shareholder understands that no public market now exists for the Replacement Shares, and that the Company has made no assurances that a public market will ever exist for the Replacement Shares.



**5.14.** **Disclaimer of Warranties**. Each Shareholder acknowledges and agrees that the Company is not making any representations or warranties with respect to any projections, forecasts or forward-looking information provided to Shareholders. The Shareholders understand and acknowledge that there is no assurance that any projected or forecasted results will be achieved. EXCEPT AS TO THOSE MATTERS EXPRESSLY COVERED BY THE REPRESENTATIONS AND WARRANTIES IN THIS AGREEMENT, THE COMPANY IS SELLING THE REPLACEMENT SHARES ON AN "AS IS, WHERE IS" BASIS AND THE COMPANY DISCLAIMS ALL OTHER WARRANTIES, REPRESENTATIONS AND GUARANTEES WHETHER EXPRESS OR IMPLIED. THE COMPANY IS NOT MAKING ANY REPRESENTATION OR WARRANTY AS TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE AND NO IMPLIED WARRANTIES WHATSOEVER.

**5.15.** **Legends**. The Shareholder understands and agrees that the certificates evidencing the Replacement Shares or the Conversion Shares, or any other securities issued in respect of the Replacement Shares or the Conversion Shares upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, whether physically or electronically certificated, shall bear any legends set forth in or required by any of the Assigned Contracts, any legend required by the securities laws of any state to the extent such laws are applicable to the Replacement Shares represented by the certificate bearing such legend, and the following legend:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED PURSUANT TO THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY PORTION HEREOF OR INTEREST HEREIN MAY BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF UNLESS THE SAME IS REGISTERED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAW, OR UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE AND THE COMPANY SHALL HAVE RECEIVED, AT THE EXPENSE OF THE HOLDER HEREOF, EVIDENCE OF SUCH EXEMPTION REASONABLY SATISFACTORY TO THE COMPANY (WHICH MAY INCLUDE, AMONG OTHER THINGS, AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY).

**5.16.** **Tax Liability**. Shareholder has reviewed with Shareholder's own tax advisors the United States federal, state, local and foreign tax consequences of the acquisition of the Replacement Shares and the transactions contemplated by this Agreement. Shareholder relies solely on such advisors and not on any statements or representations of the Company, the Company's counsel or any of the Company's agents. Shareholder understands that Shareholder (and not the Company) shall be responsible for Shareholder's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

**6.** **CONDITIONS TO SHAREHOLDERS' OBLIGATIONS AT CLOSING**. The obligations of each Shareholder under this Agreement are subject to the fulfillment or waiver, at or before the Closing, of each of the following conditions:

**6.1.** **Representations and Warranties True**. Each of the representations and warranties of the Company contained in Section 4 shall be true and complete on and as of the date of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing.

**6.2.** **Performance**. The Company shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing.



**6.3.** **Qualifications**. All authorizations, approvals or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Replacement Shares pursuant to this Agreement shall be obtained and effective as of the Closing.

**6.4.** **Certificate of Incorporation**. The Company shall have filed the Certificate of Incorporation with the Secretary of State of Delaware on or prior to the Closing, which shall continue to be in full force and effect as of the Closing.

**7.** **CONDITIONS TO THE COMPANY'S OBLIGATIONS AT CLOSING**. The obligations of the Company to the Shareholder under this Agreement are subject to the fulfillment or waiver at or before the Closing of each of the following conditions:

**7.1.** **Representations and Warranties**. The representations and warranties of the Shareholders contained in Section 5 shall be true and complete on the date of the Closing with the same effect as though such representations and warranties had been made on and as of the date of the Closing.

**7.2.** **Performance**. The Shareholders shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by them at or prior to the Closing.

**7.3.** **Delivery of Stock Transfer Documentation**. Each Shareholder shall have delivered to the Company duly executed Stock Transfer Documentation for such Shareholder's Exchange Shares in accordance with the provisions of Section 2.

**8.** **GENERAL PROVISIONS**.

**8.1.** **Survival of Warranties**. The representations, warranties and covenants of the Company and the Shareholders contained in or made pursuant to this Agreement shall not survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Shareholders or the Company, as the case may be.

**8.2.** **Successors and Assigns**. Except as otherwise provided in this Agreement, this Agreement, and the rights and obligations of the parties hereunder, will be binding upon and inure to the benefit of their respective successors, assigns, heirs, executors, administrators and legal representatives; provided that such party consents in writing to be bound by the terms, conditions and obligations under this Agreement.

**8.3.** **Assignment**. No party may assign his/her/its rights or obligations under this Agreement other than with the written consent of the Company and the holders of a majority of the Replacement Shares then outstanding (excluding any of such shares that have been sold to the public or pursuant to Rule 144).

**8.4.** **Governing Law**. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware.

**8.5.** **Titles and Headings**. The titles, captions and headings of this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement. Unless otherwise specifically stated, all references herein to "Sections" and "exhibits" will mean "sections" and "exhibits" to this Agreement.



**8.6.** **Notices**. Any and all notices required or permitted to be given to a party pursuant to the provisions of this Agreement will be in writing and will be effective and deemed to provide such party sufficient notice under this Agreement on the earliest of the following: (i) at the time of personal delivery, if delivery is in person; (ii) at the time of transmission by e-mail, addressed to the other party at its e-mail address specified herein (or hereafter modified by subsequent notice to the parties hereto); (iii) one business day after deposit with an express overnight courier for United States deliveries, or two business days after such deposit for deliveries outside of the United States, with proof of delivery from the courier requested; or (iv) three business days after deposit in the United States mail by certified mail (return receipt requested) for United States deliveries.

All notices for delivery outside the United States will be sent by e-mail or by express courier. All notices not delivered personally or by e-mail will be sent with postage and/or other charges prepaid and properly addressed to the party to be notified at the address or e-mail address as follows, or at such other address or e-mail address as such other party may designate by one of the indicated means of notice herein to the other parties hereto as follows:

(a) if to Shareholder, at the address set forth opposite such Shareholder's name on Exhibit A;

(b) if to the Company, to 3850 N. Wilke Road, Arlington Heights, Illinois 60004, Attention: Steve Sarowitz; and a copy (which shall not constitute notice) shall also be sent to DLA Piper LLP (US), 401 Congress Avenue, Suite 2500, Austin, Texas 78701, Attn: John J. Gilluly III, P.C..

**8.7.** **Amendments and Waivers**. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of a majority of the Replacement Shares then outstanding (excluding any of such shares that have been sold to the public or pursuant to Rule 144). Any amendment or waiver effected in accordance with this Section 8.7 shall be binding upon each holder of any Replacement Shares at the time outstanding, each future holder of such securities and the Company. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. No waiver granted under this Agreement as to any one provision herein shall constitute a subsequent waiver of such provision or of any other provision herein, nor shall it constitute the waiver of any performance other than the actual performance specifically waived.

**8.8.** **Severability**. If any provision of this Agreement is determined by any court or arbitrator of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such provision will be enforced to the maximum extent possible given the intent of the parties hereto. If such clause or provision cannot be so enforced, such provision shall be stricken from this Agreement and the remainder of this Agreement shall be enforced as if such invalid, illegal or unenforceable clause or provision had (to the extent not enforceable) never been contained in this Agreement. Notwithstanding the foregoing, if the value of this Agreement based upon the substantial benefit of the bargain for any party is materially impaired, which determination as made by the presiding court or arbitrator of competent jurisdiction shall be binding, then both parties agree to substitute such provision(s) through good faith negotiations.

**8.9.** **Entire Agreement**. This Agreement and the documents referred to herein, together with all the Exhibits hereto, constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede any and all prior understandings and agreements, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof.



**8.10.** **Further Assurances**. The parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Agreement.

**8.11.** **Adjustments for Stock Splits, Etc.** Wherever in this Agreement there is a reference to a specific number of Exchange Shares or Replacement Shares or of any class or series thereof, then, upon the occurrence of any subdivision, combination or stock dividend of the Exchange Shares or Replacement Shares or any class or series thereof, the specific number of securities so referenced in this Agreement shall automatically be proportionally adjusted to reflect the effect of such subdivision, combination or stock dividend on the outstanding Exchange Shares or Replacement Shares or such class or series thereof.

**8.12.** **Third Parties**. Nothing in this Agreement, express or implied, is intended to confer upon any person, other than the parties hereto and their successors and assigns, any rights or remedies under or by reason of this Agreement.

**8.13.** **Counterparts**. This Agreement may be executed in any number of counterparts (including by facsimile, PDF or other electronic signature), each of which shall be an original, but all of which together shall constitute one instrument.

[*Remainder of page intentionally left blank*]



**In Witness Whereof**, the parties hereto have executed this Share Exchange Agreement as of the date first written above.

**COMPANY:**

**PAYLOCITY HOLDING CORPORATION**

/s/Steven Beauchamp
By: Steven Beauchamp
Title: President and Chief Executive Officer

**PC:**

**PAYLOCITY CORPORATION**

/s/Steven Beauchamp
By: Steven Beauchamp
Title: President and Chief Executive Officer

*Signature Page to*
*Share Exchange Agreement*

**In Witness Whereof**, the parties hereto have executed this Share Exchange Agreement as of the date first written above.

**SHAREHOLDERS:**

**PAYLOCITY MANAGEMENT HOLDINGS, LLC**

/s/Steven Sarowitz
Name: Steven Sarowitz
Title: Manager

*Signature Page to*
*Share Exchange Agreement*

**In Witness Whereof**, the parties hereto have executed this Share Exchange Agreement as of the date first written above.

**SHAREHOLDERS:**

/s/Mike Haske
Name: Mike Haske

/s/Rob Goldstein
Name: Rob Goldstein

*Signature Page to*
*Share Exchange Agreement*

**In Witness Whereof**, the parties hereto have executed this Share Exchange Agreement as of the date first written above.

**SHAREHOLDERS**:

**ADAMS STREET 2006 DIRECT FUND, L.P.**

By: **ASP 2006 DIRECT MANAGEMENT, LLC**
its General Partner
By: **ADAMS STREET PARTNERS, LLC** its
Managing Member

/s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2007 DIRECT FUND, L.P.**

By: **ASP 2007 DIRECT MANAGEMENT, LLC**
its General Partner
By: **ADAMS STREET PARTNERS, LLC** its
Managing Member

/s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2008 DIRECT FUND, L.P.**

By: **ASP 2008 DIRECT MANAGEMENT,** LLC
its General Partner
By: **ADAMS STREET PARTNERS, LLC** its
Managing Member

/s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2009 DIRECT FUND, L.P.**

By: **ASP 2009 DIRECT MANAGEMENT, LLC**
its General Partner
By: **ADAMS STREET PARTNERS, LLC** its
Managing Member

/s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner



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**In Witness Whereof**, the parties hereto have executed this Share Exchange Agreement as of the date first written above.

**SHAREHOLDERS**:

**ADAMS STREET 2010 DIRECT FUND, L.P.**

By: **ASP 2010 DIRECT MANAGEMENT, LLC**
its General Partner
By: **ADAMS STREET PARTNERS, LLC** its
Managing Member

/s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2011 DIRECT FUND LP**

By: **ASP 2011 DIRECT MANAGEMENT LP** its
General Partner
By: **ASP 2011 DIRECT MANAGEMENT LLC** its
General Partner
By: **ADAMS STREET PARTNERS, LLC** its
Managing Member

/s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2012 DIRECT FUND LP**

By: **ASP 2012 DIRECT MANAGEMENT LP** its General Partner
By: **ASP 2012 DIRECT MANAGEMENT LLC** its General Partner
By: **ADAMS STREET PARTNERS, LLC** its Managing Member

/s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

*Signature Page to*
*Share Exchange Agreement*

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**In Witness Whereof**, the parties hereto have executed this Share Exchange Agreement as of the date first written above.

**SHAREHOLDERS**:

**ADAMS STREET CO-INVESTMENT FUND II, L.P.**

By: **ASP DIRECT CO-INVEST MANAGEMENT II, LLC** its General Partner
By: **ADAMS STREET PARTNERS, LLC** its Managing Member

/s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

*Signature Page to*
*Share Exchange Agreement*

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**In Witness Whereof**, the parties hereto have executed this Share Exchange Agreement as of the date first written above.

**KEY EXECUTIVES***

/s/Steve Beauchamp
Steve Beauchamp

/s/Michael Haske
Michael Haske

/s/Dan Miller
Dan Miller

* Solely with respect to Section 2 hereof.

*Signature Page to*
*Share Exchange Agreement*

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**Exhibit A**

**Shareholders**

| | Exchange Shares | | | Replacement Shares | | |
|---|---|---|---|---|---|---|
| **Name and Address of Registered Shareholder** | **Common Stock** | **Series A Preferred Stock** | **Series B Preferred Stock** | **Common Stock** | **Series A Preferred Stock** | **Series B Preferred Stock** |
| Paylocity Management Holdings, LLC<br>3850 N. Wilke Road<br>Arlington Heights, Illinois 60060 | 46,293,499 | — | — | 46,293,499 | — | — |
| Mike Haske<br>3850 N. Wilke Road<br>Arlington Heights, Illinois 60060 | 336,500 | — | — | 336,500 | — | — |
| Rob Goldstein<br>3850 N. Wilke Road | 67,300 | — | — | 67,300 | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Arlington Heights, Illinois 60060 | | | | | | |
| Adams Street 2006 Direct Fund, L.P.<br>Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 503,111 | 2,829,729 | 458,524 | 503,111 | 2,829,729 | 458,524 |
| Adams Street 2007 Direct Fund, L.P.<br>Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 568,151 | 3,195,543 | 517,800 | 568,151 | 3,195,543 | 517,800 |
| Adams Street 2008 Direct Fund, L.P.<br>Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 617,788 | 3,474,728 | 2,030,436 | 617,788 | 3,474,728 | 2,030,436 |
| Adams Street 2009 Direct Fund, L.P.<br>Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | — | — | 1,269,196 | — | — | 1,269,196 |
| Adams Street 2010 Direct Fund, L.P.<br>Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | — | — | 720,972 | — | — | 720,972 |
| Adams Street 2011 Direct Fund LP<br>Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | — | — | 579,228 | — | — | 579,228 |
| Adams Street 2012 Direct Fund LP<br>Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | — | — | 581,291 | — | — | 581,291 |

| | Exchange Shares | | | Replacement Shares | | |
|---|---|---|---|---|---|---|
| **Name and Address of Registered Shareholder** | **Common Stock** | **Series A Preferred Stock** | **Series B Preferred Stock** | **Common Stock** | **Series A Preferred Stock** | **Series B Preferred Stock** |
| Adams Street Co-Investment Fund II, L.P.<br>Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | — | — | 2,242,452 | — | — | 2,242,452 |

## Exhibit B

**Key Executives**

Steven Beauchamp
3850 N. Wilke Road
Arlington Heights, Illinois 60004

Michael Haske
3850 N. Wilke Road
Arlington Heights, Illinois 60004

Dan Miller
3850 N. Wilke Road
Arlington Heights, Illinois 60004

## Exhibit C

**Charter**

(*See attached*)



CERTIFICATE OF INCORPORATION

OF

PAYLOCITY HOLDING CORPORATION

FIRST: The name of the corporation is:

Paylocity Holding Corporation (the "***Corporation***")

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, zip code 19801. The name of the registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) 100,000,000 shares of Common Stock, $0.001 par value per share ("***Common Stock***") and (ii) 18,000,000 shares of Preferred Stock, $0.001 par value per share ("***Preferred Stock***").

The following is a statement of the designations and the powers, privileges and rights and the qualifications, limitations or restrictions thereof in respect of each class of capital stock.

A. PREFERRED STOCK

9,500,000 shares of the authorized and unissued Preferred Stock of the Corporation are hereby designated "***Series A Preferred***" and 8,500,000 shares of the authorized and unissued Preferred Stock of the Corporation are hereby designated "***Series B Preferred***," each with the following rights, preferences, powers, privileges and restrictions, qualifications and limitations. Unless otherwise indicated, references to "Sections" or "Subsections" of this Part A of this Article Fourth refer to sections and subsections of Part A of this Article Fourth.

1. Dividends.

(a) **Dividends**. Holders of the Series A Preferred, in preference to the holders of the Common Stock and pari passu with the holders of Series B Preferred, shall be entitled to receive, when and as declared by the Board of Directors of the Corporation (the "***Board***"), but only out of funds that are legally available therefor, cash dividends at the rate of six percent (6%) of the Series A Original Issue Price (as defined below) per annum on each outstanding share of Series A Preferred (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof), compounded annually. The "***Series A Original Issue Price***" of the Series A Preferred shall be one dollar ($1.00) per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination of shares, reverse stock split, reorganization, recapitalization, or other reclassification (each a "***Recapitalization Event***") affecting the Series A Preferred. Holders of the Series B Preferred, in preference to the holders of the Common Stock and pari passu with the Holders of Series A Preferred, shall be entitled to receive, when and as declared by the Board, but only out of funds that are legally available therefor, cash dividends at the rate of eight percent (8%) of the Series B Original Issue Price (as defined below) per annum on each outstanding share of Series B Preferred (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof), compounded annually. The "***Series B Original Issue Price***" of the



Series B Preferred shall be $3.2481 per share, subject to appropriate adjustment in the event of any Recapitalization Event affecting the Series B Preferred. The dividends described in this Section 1(a) shall accrue from day to day, whether or not declared, and shall be cumulative; provided, however, that except as set forth in the following sentence of this Section 1(a) or in Sections 3(b) and 5, such dividends shall be payable only when, as, and if declared by the Board and the Corporation shall be under no obligation to pay such dividends. The Corporation shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than dividends on shares of Common Stock payable in Common Stock) unless (in addition to the obtaining of any consents required elsewhere in the Certificate of Incorporation) the holders of any Series A Preferred and Series B Preferred then outstanding shall first receive, or simultaneously receive (in addition to any dividend payable pursuant to Section 1(b), below), a dividend equal to all dividends then accrued on such share of Series A Preferred and Series B Preferred and not previously paid. In the event that a dividend is to be paid on the Series A Preferred and Series B Preferred in an amount less than the aggregate amount of accrued but unpaid dividends, such dividends shall be allocated pro rata among the shares of Series A Preferred and Series B Preferred based upon the number of shares on an as-converted to Common Stock basis.

(b) **Participation in Common Stock Dividends**. So long as any shares of Preferred Stock shall be outstanding, no dividend, whether in cash or property, shall be paid or declared, nor shall any other distribution be made, on any share of the Common Stock, nor shall any share of the Common Stock be purchased, redeemed, or otherwise acquired for value by the Corporation (except for acquisitions of shares of the Common Stock by the Corporation pursuant to agreements which permit the Corporation to repurchase such shares upon termination of services to the Corporation or in exercise of the Corporation's right of first refusal upon a proposed transfer) until all accrued dividends set forth in Section 1(a) above on the Series A Preferred shall have been paid. In the event dividends are paid on any share of the Common Stock, an additional dividend shall be paid with respect to all outstanding shares of Preferred Stock in an amount equal per share (on an as-if-converted to Common Stock basis) to the amount paid or set aside for each share of Common Stock, provided, however, in the event that the payment of such dividends would cause the Aggregate Distributions (as defined below) with respect to a share of Series A Preferred to equal (i) the product of (x) the applicable Original Purchase Price and (y) the Applicable Multiple (as defined below) (the "***Cap Amount***"), then the shares of Series A Preferred shall only participate in such dividends on the Common Stock to the extent necessary to cause the Aggregate Distributions (after giving effect to the payment of such dividend) to equal the greater of (x) the Cap Amount and (y) the Pro Forma As Converted Amount (as defined below). In the event of a Recapitalization Event with respect to the Preferred Stock, any dividends paid with respect to shares of Series A Preferred or Series B Preferred prior to such Recapitalization Event shall be allocated among the shares of Series A Preferred or Series B Preferred, as applicable, outstanding following such Recapitalization Event ratably as determined by the Board at the time of such Recapitalization Event, and similar ratable adjustments shall be made with respect to the calculation of the Pro Forma As Converted Amount, if applicable. Notwithstanding anything to the contrary in this Section 1, the outstanding shares of Preferred Stock shall not be entitled to any additional dividend from the Corporation resulting from the payment made by Paylocity Corporation (the "***Prior Corporation***") in connection with the redemption of shares of Common Stock of the Prior Corporation on or about June 29, 2012 (the "***Special Redemption***").

(i) The "***Applicable Multiple***" shall mean with respect to the Series A Preferred, 2.25.

(ii) "***Aggregate Distributions***" shall mean the aggregate amount received on account of a share of Series A Preferred pursuant to dividends and distributions made pursuant to this Section 1 or pursuant to a Liquidation or Deemed Liquidation Event pursuant to Section 3 (each a "***Distribution Event***"); provided, that for the purpose hereof, the Special Redemption shall not constitute a Distribution Event.



(iii) "***Pro Forma As Converted Amount***" shall mean the sum of the Theoretical Distribution Amounts on account of a share of Series A Preferred in connection with all Distribution Events.

(iv) "***Theoretical Distribution Amount(s)***" shall mean, in connection with any Distribution Event, the product of (x) the aggregate amount of distributions received on account of each Common Share in connection with such Distribution Event multiplied by (y) the number of Common Stock issuable upon the conversion of such share of Series A Preferred had it been converted into Common Stock in accordance with the terms hereof immediately prior to the earlier of such Distribution Event or the record date, if any, with respect to such Distribution Event.

2. Voting.

(a) **General Rights**. On any matter presented to the shareholders of the Corporation for their action or consideration at any meeting of shareholders of the Corporation (or by written consent of shareholders in lieu of meeting), each holder of shares of the Preferred Stock shall be entitled to the number of votes equal to the number of Common Stock into which such shares of the Preferred Stock could be converted (pursuant to Section 4 hereof) immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent and shall have voting rights and powers equal to the voting rights and powers of the Common Stock and shall be entitled to notice of any shareholders' meeting in accordance with the Bylaws of the Corporation. Any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of the Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number of votes (with one half being rounded upward). Except as otherwise provided herein or as required by law, the Preferred Stock shall vote together with the Common Stock at any annual or special meeting of the shareholders and not as a separate class, and may act by written consent in the same manner as the Common Stock. There shall be no cumulative voting.

(b) **Separate Vote of Preferred Stock**. In addition to any other vote or consent required herein or by law, so long as any shares of Preferred Stock remain outstanding, the vote or written consent of the holders of at least a majority of the outstanding shares of Preferred Stock (voting as a single class on an as converted to Common Stock basis) shall be necessary for effecting or validating the following actions, (whether such action is to be taken pursuant to contract, agreement, amendment, recapitalization, merger, consolidation or otherwise):

(i) create, or authorize the creation of, or issue or obligate itself to issue shares of, any additional class or series of capital stock unless the same ranks junior to the Series A Preferred with respect to the distribution of assets on the liquidation, dissolution or winding up of the Corporation, the payment of dividends and redemption rights, or increase the authorized number of shares of Preferred Stock or increase the authorized number of shares of any class or series of capital stock;

(ii) adopt or approve any stock option or similar stock or equity incentive plan (an "***Option Plan***")for the benefit of the employees, officers, directors or consultants of the Corporation or any of its subsidiaries ("***Service Providers***"), increase the number of shares reserved in connection with awards pursuant to any Option Plan adopted, or issue any stock option or other equity incentive to any Service Provider other than pursuant to an Option Plan;

(iii) amend, alter or repeal any provision of the Certificate of Incorporation or Bylaws of the Corporation, in a manner which adversely impacts the rights, preferences or privileges of the Preferred Stock;



(iv) purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Corporation other than (1) redemptions of or dividends or distributions on the Preferred Stock as expressly authorized herein, (2) dividends or other distributions payable on the Common Stock solely in the form of additional shares of the Common Stock, (3) pursuant to the terms of any agreements or arrangements between the Corporation and Paylocity Management Holdings, LLC (the "***Management LLC***"), (4) repurchases of stock from former Service Providers in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof, or (5) as approved by the Board, including the approval of the director designated by the holders of a majority of the Preferred Stock and Common Stock issued upon conversion of the Preferred Stock pursuant to that certain Amended and Restated Voting Agreement, dated as of June 29, 2012, as assumed by the Corporation, as it may be amended and/or restated from time to time (the "***Preferred Director***");

(v) any recapitalization, restructuring or similar action (including a reverse stock split or similar combination of any outstanding shares of capital stock of the Corporation) which materially and adversely affects the rights, privileges or benefits of the Preferred Stock (including, without limitation, by cashing out of fractional shares or similar action);

(vi) any increase or decrease in the number of directors constituting the Board; or

(vii) permit any subsidiary of the Corporation to take or agree to take any action that the Corporation would be prohibited from taking pursuant to Subsection 2(b)(i)-(vi), Subsection 2(d)(i)-(ix) or as otherwise set forth in this Certificate of Incorporation.

(c) **Election of Board.** The Board shall consist of five (5) directors. At any meeting held for the purpose of electing a director, the presence in person or by proxy of the holders of a majority of the outstanding shares of the class or series entitled to elect such director shall constitute a quorum for the purpose of electing such director.

(d) **Special Board Approval.** In addition to any other vote or consent required herein or by law, so long as any shares of Preferred Stock remain outstanding, the approval of the Board, including the approval of the Preferred Director, shall be necessary for effecting or validating the following actions (whether such action is to be taken pursuant to contract, agreement, amendment, recapitalization, merger, consolidation or otherwise):

(i) create, or hold capital stock in, any subsidiary that is not wholly owned (either directly or through one or more other subsidiaries) by the Corporation, or sell, transfer or otherwise dispose of any capital stock of any direct or indirect subsidiary of the Corporation, or permit any direct or indirect subsidiary to sell, lease, transfer, exclusively license or otherwise dispose (in a single transaction or series of related transactions) of all or substantially all of the assets of such subsidiary;

(ii) assume, guarantee, endorse or otherwise become directly or contingently liable on (including, without limitation, liability by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) any indebtedness of any other person or entity, except for (a) guaranties by endorsement of negotiable instruments for deposit or collection in the ordinary course of business and (b) the guaranties of the permitted obligations of any wholly-owned subsidiary, or permit any of its subsidiaries to do any of the foregoing;



(iii) make any loan or extend any credit, or permit any subsidiary to take any such action, to any person or entity, other than customary employee advances or receivables of the Corporation and its subsidiaries owing in the ordinary course of business from their respective customers;

(iv) create, or authorize the creation of, or issue, or authorize the issuance of any debt security, or permit any subsidiary to take any such action with respect to any debt security if the aggregate indebtedness of the Corporation and its subsidiaries for borrowed money following such action would exceed $1,000,000, except that this subparagraph (iv) shall not apply to trade credit incurred in the ordinary course of business;

(v) any grant of a stock option or other award pursuant to an Option Plan to any director or the President, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer or any functional equivalent of any of the foregoing of the Corporation (collectively, the ***"Senior Managers"***) or any of their parents, spouses or descendants (including by adoption);

(vi) enter into a transaction or agreement between the Corporation and any officer, director or employee of the Corporation or any affiliate thereof, except (i) in connection with ordinary course employment matters and (ii) other transactions resulting in annual payments of not more than $50,000) and which, in either case, the disinterested members of the Board determine are fair to the Corporation;

(vii) the hiring or termination of, or any change or award of compensation (whether salary, bonus or otherwise, but excluding insurance and similar benefits under any applicable employee benefit plan made generally available to the Corporation's employees) to, the Corporation's Chief Executive Officer, President or Vice President of Sales and Marketing;

(viii) engage in any business other than the business of providing payroll services, human resource and time and labor software solutions and business related or ancillary thereto; or

(ix) any agreement or any other action to license on an exclusive basis or otherwise transfer any or all of the Corporation's rights in the intellectual property or any other proprietary information of the Corporation to any other entity or person.

3. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales.

(a) **Preferential Payments to Holders of Series B Preferred**. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation (each, a "***Liquidation***"),the holders of shares of Series B Preferred then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its shareholders pari passu with the payments that shall be made to the holders of the Series A Preferred and before any payments to be made to the holders of the Common Stock, in each case by reason of their ownership thereof, an amount per share equal to (i) the Series B Original Issue Price plus (ii) any dividends accrued but unpaid thereon plus (iii) if such Liquidation occurs on or before June 29, 2014, an amount equal to ten percent (10%) of the Series B Original Issue Price per annum on each outstanding share of Series B Preferred (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof), compounded annually. The aggregate amount which a holder of a share of Series B is



entitled to receive for each share of Preferred Series B under Subsection 3(a) is hereinafter referred to as the "***Series B Preferred Liquidation Amount***."

(b) **Preferential Payments to Holders of Series A Preferred**. In the event of any Liquidation, the holders of shares of Series A Preferred then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its shareholders pari passu with the payment of all preferential amounts required to be paid to the holders of shares of Series B Preferred pursuant to Subsection 3(a) and before any payment shall be made to the holders of the Common Stock, in each case by reason of their ownership thereof, an amount per share equal to the Series A Original Issue Price plus any dividends accrued but unpaid thereon. If upon any such Liquidation, the assets of the Corporation available for distribution to its shareholders shall be insufficient to pay the holders of shares of Series A Preferred and Series B Preferred the full amount to which they shall be entitled under this Subsection 3(a) and Subsection 3(b), the holders of shares of Series A Preferred and Series B Preferred shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(c) **Distribution of Remaining Assets**. In the event of any Liquidation, after the payment of all preferential amounts required to be paid to the holders of shares of Series A Preferred and Series B Preferred pursuant to Subsections 3(a) and 3(b), the remaining assets of the Corporation available for distribution to its shareholders shall be distributed among the holders of the shares of Series A Preferred and the Common Stock, pro rata based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to shares of the Common Stock pursuant to the terms of this Certificate of Incorporation immediately prior to such Liquidation. The aggregate amount which a holder of a share of Series A Preferred is entitled to receive for each share of Series A Preferred under Subsections 3(b) and 3(c) is hereinafter referred to as the "***Series A Preferred Liquidation Amount***" and together with the Series B Preferred Liquidation Amount, the "***Preferred Liquidation Amount***".

(d) **Cap on Series A Preferred Liquidation Amount**. Notwithstanding Subsections 3(b) and 3(c) above, if the Series A Preferred Liquidation Amount would cause the amount of Aggregate Distributions on account of a share of Series A Preferred to exceed the Cap Amount as of the date of distribution of the proceeds of Liquidation or in connection with a Deemed Liquidation Event, then, in lieu of the Series A Preferred Liquidation Amount the holders of Series A Preferred shall be entitled to receive an amount of the proceeds of such Liquidation or Deemed Liquidation Event which is sufficient to cause the amount of Aggregate Distributions on account of a share of Series A Preferred (after giving effect to all distributions pursuant to such Liquidation or Deemed Liquidation Event) to equal the greater of (x) the Cap Amount and (y) the Pro Forma As Converted Amount.

(e) **Deemed Liquidation Events**.

(i) Definition. Each of the following events shall be considered a "***Deemed Liquidation Event***" unless the holders of a majority of the outstanding shares of Preferred Stock elect otherwise by written notice sent to the Corporation at least fifteen (15) days prior to the effective date of any such event:

(A) a merger or consolidation in which the Corporation is a constituent party or a subsidiary of the Corporation is a constituent party and the Corporation issues shares of its capital stock pursuant to such merger or consolidation, except any such merger or consolidation involving the Corporation or a subsidiary in which the shares of capital stock of the Corporation outstanding immediately prior to such merger or consolidation continue to represent, or are

converted into or exchanged for, shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation (provided that, for the purpose of this Subsection 3(e), all shares of the Common Stock issuable upon exercise of Options (as defined herein) outstanding immediately prior to such merger or consolidation or upon conversion of Convertible Securities (as defined herein) outstanding immediately prior to such merger or consolidation shall be deemed to be outstanding immediately prior to such merger or consolidation and, if applicable, converted or exchanged in such merger or consolidation on the same terms as the actual outstanding shares of Common Stock are converted or exchanged);

(B) the transfer (whether by merger, consolidation or otherwise), in one transaction or a series of related transactions, to any person, entity or group of affiliated persons or entities), of the Corporation's outstanding securities possessing 50% or more of the outstanding voting power of all then outstanding voting securities of the Corporation (except for any such entity in which the holders of 100% of the voting capital stock of the Corporation immediately prior to such transaction hold more than 50% of the voting rights of such transferee entity), provided, however, that notwithstanding the foregoing, the distribution of the Corporation's securities by Management LLC to its unitholders after the date of filing of this Certificate of Incorporation shall not constitute a Deemed Liquidation Event; or

(C) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Corporation or any subsidiary of the Corporation of all or substantially all the assets of the Corporation and its subsidiaries taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more subsidiaries of the Corporation if substantially all of the assets of the Corporation and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Corporation.

(ii) Effecting a Deemed Liquidation Event.

(A) The Corporation shall not have the power to effect a Deemed Liquidation Event referred to in this Section 3(e) above unless the definitive agreement for such transaction (the "***Transaction Agreement***")provides that the consideration payable to the shareholders of the Corporation shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 3(a), 3(b) and 3(c) above.

(B) In the event of a Deemed Liquidation Event referred to in Subsection 3(e)(i)(A) or 3(e)(i)(B) above, if the Corporation does not effect a dissolution of the Corporation under the DGCL within ninety (90) days after such Deemed Liquidation Event, then (i) the Corporation shall send a written notice to each holder of Preferred Stock no later than the ninetieth ($90^{th}$) day after the Deemed Liquidation Event advising such holders of their right (and the requirements to be met to secure such right) pursuant to the terms of the following clause (ii) to require the redemption of such shares of Preferred Stock, and (ii) if the holders of at least a majority of the then outstanding shares of Preferred Stock (voting as a single class on an as converted to Common Stock basis) so request in a written instrument delivered to the Corporation not later than one hundred twenty (120) days after such Deemed Liquidation Event, the Corporation shall use the consideration received by the Corporation for such Deemed Liquidation Event (net of any retained liabilities associated with the assets sold or technology licensed, as determined in good faith by the Board of the Corporation) (the "***Net Proceeds***"), to the extent legally available therefor, on the one hundred fiftieth (150th) day after such Deemed Liquidation Event, to redeem all outstanding shares of Preferred Stock at a price per share equal to the



Preferred Liquidation Amount. Notwithstanding the foregoing, in the event of a redemption pursuant to the preceding sentence, if the Net Proceeds are not sufficient to redeem all outstanding shares of the Preferred Stock, or if the Corporation does not have sufficient lawfully available funds to effect such redemption, the Corporation shall redeem a pro rata portion of each holder's shares of Preferred Stock to the fullest extent of such Net Proceeds or such lawfully available funds, as the case may be, based on the respective amounts which would otherwise be payable in respect of the shares to be redeemed if the legally available funds were sufficient to redeem all such shares, and shall redeem the remaining shares to have been redeemed as soon as practicable after the Corporation has funds legally available therefor. The provisions of Section 5 below shall apply, with such necessary changes in the details thereof as are necessitated by the context, to the redemption of Preferred Stock pursuant to this Subsection 3(e)(ii)(B). Prior to the distribution or redemption provided for in this Subsection 3(e)(ii)(B), the Corporation shall not expend or dissipate the consideration received for such Deemed Liquidation Event, except to discharge expenses incurred in connection with such Deemed Liquidation Event or in the ordinary course of business.

(iii) Amount Deemed Paid or Distributed. If the amount deemed paid or distributed under this Subsection 3(e)(iii) is made in property other than in cash, the value of such distribution shall be the fair market value of such property, determined by the Board, or in the event of securities as follows:

(A) For securities not subject to investment letters or other similar restrictions on free marketability,

(1) if traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange or market over the thirty (30) trading day period ending three (3) days prior to the closing of such transaction;

(2) if actively traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the thirty (30) trading day period ending three (3) days prior to the closing of such transaction; or

(3) if there is no active public market, the value shall be the fair market value thereof, as determined by the Board acting in good faith.

(B) The method of valuation of securities subject to investment letters or other similar restrictions on free marketability (other than restrictions arising solely by virtue of a shareholder's status as an affiliate or former affiliate) shall take into account an appropriate discount (as mutually determined by the Board and holders of at least a majority of the outstanding shares of the Preferred Stock voting as a single class on an as converted to Common Stock basis) from the market value as determined pursuant to clause (1) above so as to reflect the approximate fair market value thereof.

In any such case, the Board shall notify each holder of shares of Preferred Stock of its determination of the fair value or allocation, as the case may be, of such consideration prior to payment or accepting receipt thereof. If, within ten (10) days after receipt of such notice, the holders of a majority of the shares of the Preferred Stock (voting as a single class on an as converted to Common Stock basis) then outstanding shall notify the Board in writing of their objection to such determination, a determination of the fair value of such consideration or allocation, as the case may be, shall be made by a nationally recognized independent

investment banking firm acceptable to the Corporation and the holders of at least a majority of the shares of the Preferred Stock then outstanding (voting as a single class on an as converted to Common Stock basis). If the parties are unable to agree on such an investment banking firm,



one shall be chosen by two nationally recognized independent investment banking firms, one of which shall be designated by the Corporation and one of which shall be designated by the holders of at least a majority of the shares of the Preferred Stock then outstanding (voting as a single class on an as converted to Common Stock basis). The Corporation shall bear the entire cost of the fees and expenses borne by the parties in such determination of fair market value.

(iv) Allocation of Escrow. In the case of a Deemed Liquidation Event, if any portion of the consideration payable to the shareholders of the Corporation is placed into escrow and/or is payable to the shareholders of the Corporation subject to contingencies or is otherwise paid on a deferred basis, the Transaction Agreement shall provide that (1) the portion of such consideration that is not placed in escrow and not subject to any contingencies (the ***"Initial Consideration"***) shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 3(a) through 3(d) above as if the Initial Consideration were the only consideration payable in connection with such Deemed Liquidation Event and (2) any additional consideration which becomes payable to the shareholders of the Corporation upon release from escrow or satisfaction of contingencies shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 3(a) through 3(c) above after taking into account the previous payment of the Initial Consideration as part of the same transaction.

(v) Deemed Conversion. For the purposes hereof, in the event a holder of Series B Preferred would receive an a greater amount of the proceeds were such holder to have converted such Series B Preferred to Common Stock immediately prior to the consummation of such Deemed Liquidation, then such holder of Series B Preferred shall be deemed to have converted for the purposes of the allocation of the proceeds from a Deemed Liquidation Event, so that, in any event the aggregate proceeds a holder of Series B Preferred receives is the greater of (x) the amount specified pursuant to Subsections 3(a) and (y) the amount that would have been received if such holder of Series B Preferred converted such Series B Preferred into Common Stock immediately prior to the consummation of such Deemed Liquidation Event.

4. Conversion. The holders of the Preferred Stock shall have the following rights with respect to the conversion of the Preferred Stock into shares of the Common Stock (the "***Conversion Rights***"):

(a) **Optional Conversion**. Subject to and in compliance with the provisions of this Section 4, any shares of the Preferred Stock may, at the option of the holder, be converted at any time into fully-paid and nonassessable Common Stock. The number of shares of Common Stock to which a holder of the Preferred Stock shall be entitled upon conversion shall be the product obtained by multiplying the applicable Series A Preferred Conversion Rate or Series B Conversion Rate then in effect (determined as provided in Section 4(b)) by the number of shares of the Series A Preferred or Series B Preferred, as applicable, being converted.

(b) **Conversion Rate**. The conversion rate in effect at any time for conversion of the Series A Preferred (the "***Series A Preferred Conversion Rate***") shall be the quotient obtained by dividing the Series A Original Issue Price by the Series A Preferred Conversion Price, calculated as provided in Section 4(c). The conversion rate in effect at any time for conversion of the Series B Preferred (the "***Series B Preferred Conversion Rate***") shall be the quotient obtained by dividing the Series B Original Issue Price by the Series B Preferred Conversion Price, calculated as provided in Section 4(c). "***Conversion Rate***" shall mean the Series A Preferred Conversion Rate or Series B Preferred Conversion Rate, as applicable.



(c) **Conversion Price**. The conversion price for the Series A Preferred (the "***Series A Preferred Conversion Price***") shall initially be the Series A Original Issue Price. The conversion price for the Series B Preferred (the "***Series B Preferred Conversion Price***") shall initially be the Series B Original Issue Price. The initial Series A Preferred Conversion Price and Series B Preferred Conversion Price, as applicable, shall be adjusted from time to time in accordance with this Section 4. All references to the Series A Preferred Conversion Price and Series B Preferred Conversion Price herein shall mean the applicable Series A Preferred Conversion Price and Series B Preferred Conversion Price, as so adjusted.

(d) **Mechanics of Conversion**. Each holder of the Preferred Stock who desires to convert the same into Common Stock pursuant to this Section 4 shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or any transfer agent for the Preferred Stock, and shall give written notice to the Corporation at such office that such holder elects to convert the same. Such notice shall state the number of shares of the Preferred Stock being converted. Thereupon, the Corporation shall promptly (but in no event more than three (3) business days after delivery of the notice required by the first sentence of this Section 4(d)) issue and deliver at such office to such holder a certificate or certificates for the number of shares of Common Stock to which such holder is entitled and shall promptly pay in cash (i) any declared and unpaid dividends on the shares of such Preferred Stock being converted and (ii) the fair market value, as determined in good faith by the Board as of the date of conversion, of any fractional share of the Common Stock otherwise issuable to any holder of the Preferred Stock. Such conversion shall be deemed to have been made at the close of business on the date of such surrender of the certificates representing the shares of the Preferred Stock to be converted, and the person entitled to receive the shares of the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of the Common Stock on such date.

(e) **Adjustment for Stock Splits and Combinations**. If at any time or from time to time after June 29, 2012 (the "***Series B Original Issue Date***"), the Corporation effects a subdivision of the outstanding shares of the Common Stock without a corresponding subdivision of the Preferred Stock, the Series A Preferred Conversion Price and Series B Conversion Price in effect immediately before that subdivision shall be proportionately decreased. Conversely, if at any time or from time to time after the Series B Original Issue Date the Corporation combines the outstanding shares of the Common Stock into a smaller number of shares without a corresponding combination of the Preferred Stock, the Series A Preferred Conversion Price and Series B Conversion Price in effect immediately before the combination shall be proportionately increased. Any adjustment under this Section 4(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) **Adjustment for Common Stock Dividends and Distributions**. If at any time or from time to time after the Series B Original Issue Date, the Corporation pays a dividend or other distribution in additional shares of the Common Stock, the applicable Series A Preferred Conversion Price and Series B Conversion Price that are then in effect shall be decreased as of the time of such issuance, as provided below.

(i) The Series A Preferred Conversion Price and Series B Conversion Price shall be adjusted by multiplying such Series A Preferred Conversion Price and Series B Conversion Price, respectively, then in effect by a fraction:

(A) the numerator of which is fee total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance, and



(B) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance plus the number of shares of Common Stock issuable in payment of such dividend or distribution;

(ii) If the Corporation fixes a record date to determine which holders of the Common Stock are entitled to receive such dividend or other distribution, the applicable Series A Preferred Conversion Price and Series B Preferred Conversion Price shall be fixed as of the close of business on such record date and the number of shares of the Common Stock shall be calculated immediately prior to the close of business on such record date; and

(iii) If such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the applicable Series A Preferred Conversion Price and Series B Preferred Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Series A Preferred Conversion Price and Series B Preferred Conversion Price shall be adjusted pursuant to this Section 4(f) to reflect the actual payment of such dividend or distribution.

(g) **Adjustment for Reclassification, Exchange and Substitution**. If at any time or from time to time after the Series B Original Issue Date, the Common Stock issuable upon the conversion of the Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a Deemed Liquidation Event or a subdivision or combination of shares or stock dividend or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this Section 4), in any such event each holder of the Preferred Stock shall then have the right to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change by holders of the maximum number of shares of the Common Stock into which such shares of the Preferred Stock could have been converted immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

(h) **Reorganizations, Mergers or Consolidations**. If at any time or from time to time after the Series B Original Issue Date, there is a capital reorganization of the Common Stock or the merger or consolidation of the Corporation with or into another corporation or another entity or person (other than a Deemed Liquidation Event or a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares provided for elsewhere in this Section 4), as a part of such capital reorganization, merger or consolidation, provision shall be made so that the holders of the Preferred Stock shall thereafter be entitled to receive upon conversion of the Preferred Stock the number of shares of stock or other securities or property of the Corporation to which a holder of the number of shares of the Common Stock deliverable upon conversion would have been entitled on such capital reorganization, merger or consolidation subject to adjustment in respect of such stock or securities by the terms thereof. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 4 with respect to the rights of the holders of the Preferred Stock after the capital reorganization to the end that the provisions of this Section 4 (including adjustment of the Series A Preferred Conversion Price and Series B Conversion Price then in effect and the number of shares issuable upon conversion of the Preferred Stock), shall be applicable after that event and be as nearly equivalent as practicable.

(i) **Sale of Shares Below Conversion Price**.

(i) If at any time or from time to time after the Series B Original Issue Date, the Corporation issues or sells, or is deemed by the express provisions of this Section 4(i) to



have issued or sold, Additional Shares of Common Stock (as defined herein), other than as a dividend or other distribution on any class of stock as provided in Section 4(f) above, and other than a subdivision or combination of shares of the Common Stock as provided in Section 4(e) above, for an Effective Price (as defined herein) less than the then-effective Series A Preferred Conversion Price or Series B Preferred Conversion Price, then and, in each such case, the then-effective Series A Preferred Conversion Price and/or Series B Preferred Conversion Price shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying such Series A Preferred Conversion Price and/or Series B Preferred Conversion Price in effect immediately prior to such issuance or sale by a fraction:

(A) the numerator of which shall be (1) the number of Shares of Common Stock Outstanding (as defined herein) immediately prior to such issue or sale, plus (2) the number of shares of the Common Stock which the Aggregate Consideration (as hereinafter defined) received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the then-effective Series A Preferred Conversion Price or Series B Preferred Conversion Price, as applicable, and

(B) the denominator of which shall be the number of Shares of Common Stock Outstanding immediately prior to such issue or sale plus the total number of Additional Shares of Common Stock so issued.

Notwithstanding the foregoing, such adjustment to the then existing Series A Preferred Conversion Price and/or Series B Conversion Price may be waived by the holders of a majority of the Series A Preferred and/or Series B Preferred, respectively, voting as a separate class, then outstanding.

(ii) No adjustment shall be made to any Series A Preferred Conversion Price or Series B Preferred Conversion Price under this Section 4(i) in an amount less than one cent ($0.01) per share. Any adjustment otherwise required by this Section 4(i) and that is not required to be made due to the preceding sentence shall be included in any subsequent adjustment to the Series A Preferred Conversion Price or Series B Preferred Conversion Price.

(iii) As used in this Section 4(i) and elsewhere in this Certificate of Incorporation, capitalized terms shall have the following meanings:

(A) "***Additional Shares of Common Stock***" means all Common Stock issued by the Corporation or deemed to be issued pursuant to this Section 4(i) (including shares of the Common Stock subsequently reacquired or retired by the Corporation), other than:

(1) Common Stock issued upon conversion of the Preferred Stock;

(2) Common Stock issuable upon the exercise of Options or otherwise issued as, or upon the exercise or conversion of, awards pursuant to any Option Plan, to the extent such Option Plan has been approved in accordance with the terms of Section 2(b);

(3) Common Stock, Options or Convertible Securities issued as a dividend or distribution on or with respect to any Series A Preferred, or, to the extent subject to any of Sections 4(d) through 4(h), on or with respect to any Common Stock;

(4) Common Stock, or Options to purchase Common Stock, issued to financial institutions, lenders or lessors in connection with bona fide



commercial credit arrangements, equipment financings, commercial property leases, or similar transactions, the terms of which have been approved by the Board, including the Preferred Director;

(5) Common Stock or Options to purchase Common Stock issued in connection with bona fide acquisitions, mergers, strategic partnership transactions or similar transactions, the terms of which have been approved by the Board, including the Preferred Director, and

(6) Common Stock issued or issuable in a public offering, the terms of which have been approved by the Board, including the Preferred Director.

(7) References in this definition of "Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Corporation or deemed to be issued pursuant to this Section 4(i).

(B) "***Aggregate Consideration***" means: (A) to the extent it consists of cash, the net amount of cash received by the Corporation after deduction of any underwriting or similar commissions, compensation or concessions paid or allowed by the Corporation in connection with such issue or sale but without deduction of any expenses payable by the Corporation, (B) to the extent it consists of property other than cash, the fair value of that property as determined in good faith by the Board, and (C) if Additional Shares of Common Stock, Convertible Securities or rights or Options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration which covers both, the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or Options. In any case in which the determination of the Board is required pursuant to subclause (B) or (C) above, the Board shall notify each holder of the Preferred Stock of its determination of the fair value or allocation, as the case may be, of such consideration prior to payment or accepting receipt thereof. If, within ten (10) days after receipt of said notice, the holders of a majority of the Series A Preferred then outstanding shall notify the Board in writing of their objection to such determination, a determination of the fair value of such consideration or allocation, as the case may be, shall be made by a nationally recognized independent investment banking firm acceptable to the Corporation and the holders of a majority of the Preferred Stock then outstanding. If the parties are unable to agree on such an investment banking firm, one shall be chosen by two nationally recognized independent investment banking firms, one of which shall be designated by the Corporation and one of which shall be designated by the holders of a majority of the Preferred Stock then outstanding. The Corporation shall bear the entire cost of the fees and expenses borne by the parties in such determination of the fair value.

(C) "***Shares of Common Stock Outstanding***" means, as of any given date, the sum of (1) the number of shares of the Common Stock outstanding, (2) the number of shares of the Common Stock into which the then outstanding shares of the Preferred Stock could be converted if fully converted on the day immediately preceding the given date, (3) the number of shares of Common Stock issuable upon exercise of all Options outstanding on the day immediately preceding the given date and (4) the number of Common Stock issuable upon the conversion or exchange of Convertible Securities outstanding on the day immediately preceding the given date and, without duplication of any amounts included in clause (3) of this definition, Convertible Securities issuable upon the exercise of Options outstanding on the day immediately preceding the given date.

(D) "***Convertible Securities***" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for shares of the Common Stock, but excluding Options.



(E) "***Effective Price***" means the quotient determined by dividing the total number of Additional Shares of Common Stock issued or sold, or deemed to have been issued or sold by the Corporation under this Section 4(i), into the Aggregate Consideration received, or deemed to have been received by the Corporation for such issue under this Section 4(i), for such Additional Shares of Common Stock.

(F) "***Option***" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(j) **Multiple Closing Dates**. In the event the Corporation shall issue on more than one date Additional Shares of Common Stock that are a part of one transaction or a series of related transactions and that would result in an adjustment to the Series A Preferred Conversion Price or Series B Preferred Conversion Price pursuant to the terms of Section 4(i) above then, upon the final such issuance, the Series A Conversion Price and/or Series B Preferred Conversion Price, as applicable, shall be readjusted to give effect to all such issuances as if they occurred on the date of the first such issuance (and without giving effect to any additional adjustments as a result of any such subsequent issuances within such period).

(k) **Certificate of Adjustment**. In each case of an adjustment or readjustment of the Series A Preferred Conversion Price or Series B Preferred Conversion Price for the number of shares of the Common Stock or other securities issuable upon conversion of the Preferred Stock, if the Preferred Stock is then convertible pursuant to this Section 4, the Corporation, at its expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the Preferred Stock at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or deemed to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the Effective Price of any such Additional Shares of Common Stock, (iii) the Series A Preferred Conversion Price and Series B Preferred Conversion Price at the time in effect, (iv) the

number of Additional Shares of Common Stock and (v) the type and amount, if any, of other property which at the time would be received upon conversion of the Preferred Stock.

(l) **Notices of Record Date**. Upon (i) any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any Deemed Liquidation Event or other capital reorganization of the Corporation, any Recapitalization Event, any merger or consolidation of the Corporation with or into any other corporation, or any voluntary or involuntary dissolution, liquidation or winding up of the Corporation, the Corporation shall mail to each holder of the Preferred Stock at least ten (10) days prior to the record date specified therein (or such shorter period approved by the holders of a majority of the outstanding Preferred Stock voting together as a single class on an as converted to Common Stock basis) a notice specifying (A) the date on which any such record is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (B) the date on which any such Deemed Liquidation Event, Recapitalization Event, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (C) the date, if any, that is to be fixed as to when the holders of record of the Common Stock (or other securities) shall be entitled to exchange their shares of the Common Stock (or other securities) for securities or other property deliverable upon such Deemed Liquidation Event, Recapitalization Event, transfer, consolidation, merger, dissolution, liquidation or winding up.



(m) **Automatic Conversion**.

(i) Upon the closing of the sale of shares of the Common Stock to the public at a price of at least $5.6842 per share (as adjusted for any Recapitalization Event with respect to the Common Stock), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act, resulting in at least Fifty Million Dollars ($50,000,000) of gross proceeds, before deduction of underwriting discounts and commissions, to the Corporation, and the shares issued for such offering are listed or eligible for trading on a national securities exchange (clauses (A) and (B) each a "***Qualified Initial Public Offering***"), or (C) with respect to the Preferred Stock, the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the then outstanding shares of the Preferred Stock voting together as a single class on an as converted to Common Stock basis (the time of such closing or the date and time specified or the time of the event specified in such vote or written consent is referred to herein as the "***Automatic Conversion Time***"), then (1) with respect to the foregoing clause (A) all outstanding shares of the Series A Preferred shall automatically be converted into Common Stock, at the then effective Series A Preferred Conversion Rate, (2) with respect to the foregoing clause (B) all outstanding shares of the Series B Preferred shall automatically be converted into Common Stock at the then effective Series B Preferred Conversion Rate, (3) with respect to the foregoing clause (C) all outstanding shares of the Preferred Stock shall automatically be converted into Common Stock at the then effective Conversion Rate and (4) such shares may not be reissued by the Corporation. Upon such automatic conversion, any declared but unpaid dividends on the Preferred Stock shall be paid in accordance with the provisions of Section 4(d).

(ii) The Corporation shall send to all holders of record of shares of the Preferred Stock written notice of the Automatic Conversion Time and the place designated for mandatory conversion of all such shares of the Series A Preferred and/or Series B Preferred pursuant to this Section 4(m). The Corporation need not send such notice in advance of the occurrence of the Automatic Conversion Time. Upon receipt of such notice, each holder of shares of the Preferred Stock converted pursuant to Section 4(m)(i) shall surrender his, her or its certificate or certificates for all such shares (or, if such holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate) to the Corporation at the place designated in such notice, and shall thereafter receive certificates for the number of shares of the Common Stock to which such holder is entitled pursuant to this Section 4(m). At the Automatic Conversion Time, all outstanding shares of the Preferred Stock converted pursuant to Section 4(m)(i) shall be deemed to have been converted into Common Stock, which shall be deemed to be outstanding of record, and all rights with respect to the Preferred Stock so converted, including the rights, if any, to receive notices and vote (other than as a holder of the Common Stock), will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates (or lost certificate affidavit and agreement) therefor, to receive the items provided for in the last sentence of this clause (ii). If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. As soon as practicable after the Automatic Conversion Time and the surrender of the certificate or certificates (or lost certificate affidavit and agreement) for the Preferred Stock converted pursuant to Section 4(m)(i), the Corporation shall issue and deliver to such holder, or to his, her or its nominees, a certificate or certificates for the number of Common Stock issuable on such conversion in accordance with the provisions hereof, together with cash in lieu of any fraction of a Common Stock otherwise issuable upon such conversion and the payment of any dividends declared and unpaid on the shares of the Preferred Stock converted.

(iii) All shares of the Preferred Stock converted pursuant to Section 4(m)(i) shall, from and after the Automatic Conversion Time, no longer be deemed to be outstanding and, notwithstanding the failure of the holder or holders thereof to surrender the certificates for such shares on



or prior to such time, all rights with respect to such shares shall immediately cease and terminate at the Automatic Conversion Time, except only the right of the holders thereof to receive Common Stock in exchange therefor and to receive payment on account of any fractional Common Stock and of any dividends declared but unpaid thereon. Such converted shares of the Preferred Stock shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for shareholder action) as may be necessary to reduce the authorized number of shares of the Series A Preferred, Series B Preferred and the Preferred Stock in the aggregate accordingly.

(n) **Restriction on Conversion**. Notwithstanding anything to the contrary in this Section 4, except in connection with the Corporation's first firm commitment underwritten public offering of its Common Stock registered under the Securities Act, no holder of shares of the Preferred Stock shall be permitted to convert any share of the Preferred Stock into shares of the Common Stock at any time that Aggregate Distributions have been made on account of such share of Preferred Stock in an amount equal to the applicable Cap Amount for such share of Preferred Stock; provided, however, that the foregoing limitation shall in no way limit or affect any voting or other rights of the Preferred Stock which are determined or calculated on an as-converted basis.

(o) **Fractional Shares**. No fractional shares of the Common Stock shall be issued upon conversion of the Preferred Stock. All Common Stock (including fractions thereof) issuable upon conversion of more than one share of the Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of any fractional share, the Corporation shall, in lieu of issuing any fractional share, pay cash equal to the product of such fraction multiplied by the Common Stock's fair market value (as determined in good faith by the Board) on the date of conversion.

(p) **Reservation of Stock Issuable Upon Conversion**. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of the Common Stock, solely for the purpose of effecting the conversion of the shares of the Preferred Stock, such number of its shares of the Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Preferred Stock. If at any time the number of authorized but unissued Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its legal counsel, be necessary to increase its authorized but unissued Common Stock to such number of Common Stock as shall be sufficient for such purpose.

(q) **Payment of Taxes**. The Corporation will pay all taxes (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issuance or delivery of Common Stock upon conversion of shares of the Preferred Stock, excluding any tax or other charge imposed in connection with any transfer involved in the issuance and delivery of Common Stock in a name other than that in which the shares of the Preferred Stock so converted were registered.

5. Redemption.

(a) Unless prohibited by Delaware law governing distributions to stockholders, the Corporation shall be obligated to redeem the Preferred Stock as follows:

(i) The holders of a majority of the then outstanding shares of the Preferred Stock, voting together as a single class on an as converted to Common Stock basis, may require the Corporation, to the extent it may lawfully do so under the DGCL to redeem all (but not less than all)



of the issued and outstanding shares of Preferred Stock by providing written notice (a "***Redemption Request***") to the Corporation at any time following the third anniversary of the Series B Original Issue Date. The Corporation shall effect such redemption in three (3) annual installments with the first to occur on the date that is 90 days after the date that the Corporation receives notice of such vote (or, in the case of any redemption where the Per Share Redemption Price is to be based upon the Fair Market Value, thirty (30) days after final determination of the Fair Market Value, if later) (each a "***Redemption Date***") by paying in cash in exchange for the shares of the Preferred Stock to be redeemed on such Redemption Date an amount per share (the "***Per Share Redemption Price***")equal to (x) in the case of any redemption pursuant to a Redemption Request (as defined below) delivered prior to the date which is 90 days prior to the fifth anniversary of the Series B Original Issue Date (the "***FMV Date***") the Original Issue Price of such share of Preferred Stock, plus any dividends accrued but unpaid thereon or (y) in all other cases, the Fair Market Value of such share of Preferred Stock (as defined below).

(ii) Within thirty (30) days after being required to redeem the Preferred Stock by reason of the vote contemplated by the foregoing clause (i), the Corporation shall send a notice (each a "***Redemption Notice***")to all holders of the Preferred Stock to be redeemed setting forth the place at which such holders may obtain payment of the Per Share Redemption Price for each share of Preferred Stock upon surrender of their share certificates, and, in the case of a Redemption Request delivered on or after the FMV Date, the initial determination of the Fair Market Value of each series of Preferred Stock of the Board. The number of shares of the each series of Preferred Stock that the Corporation shall be required to redeem on any one Redemption Date shall be equal to the amount determined by dividing (A) the aggregate number of shares of the each Series of Preferred Stock outstanding immediately prior to the Redemption Date by (B) the number of remaining Redemption Dates (including the Redemption Date to which such calculation applies). Shares subject to redemption pursuant to this Section 5(a) shall be redeemed from each holder of shares of each series of Preferred Stock on a pro rata basis, based on the total number of shares of such series of Preferred Stock then outstanding. If the Corporation does not have sufficient funds available to legally redeem all shares to be redeemed on such Redemption Date (including, if applicable, those to be redeemed at the option of the Corporation), then it shall redeem such shares pro rata (based on the portion of the aggregate Redemption Price payable to them) to the extent possible and shall redeem the remaining shares to be redeemed as soon as sufficient funds are legally available.

(iii) "***Fair Market Value***" shall mean, with respect to any share of Preferred Stock, the amount which would be received on account of such share of Preferred Stock pursuant to the terms hereof on account of a Deemed Liquidation Event occurring on the date on which the Redemption Request was delivered which resulted in a sale of the entire Corporation on a going concern basis pursuant to a transaction negotiated by unrelated parties with relatively equal bargaining power and leverage following a commercially reasonable sales process. The Board of Directors of the Corporation shall initially determine the Fair Market Value and provide notice of its determination of the Fair Market Value in the Redemption Notice. If, within ten (10) days after receipt of the Redemption Request, the holders of a majority of the shares of the Series A Preferred then outstanding shall notify the Board in writing of their objection to such determination, a determination of the Fair Market Value shall be made by a nationally recognized independent investment banking firm acceptable to the Corporation and the holders of at least a majority of the shares of the Preferred Stock then outstanding (voting together as a single class on an as converted to Common Stock basis). If the parties are unable to agree on such an investment banking firm, one shall be chosen by two nationally recognized independent investment banking firms, one of which shall be designated by the Corporation and one of which shall be designated by the holders of at least a majority of the shares of the Preferred Stock then outstanding (voting together as a single class on an as converted to Common Stock basis). The Corporation and the holders of the shares of the Preferred Stock shall each bear one-half of the cost of the fees and expenses borne by the parties in such determination of Fair Market Value.



(b) On or after the applicable Redemption Date, each holder of shares of the Preferred Stock to be redeemed shall surrender such holder's certificates representing such shares to the Corporation in the manner and at the place designated in the Redemption Notice, as applicable, and thereupon the applicable Per Share Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by such certificates are redeemed, a new certificate shall be issued representing the unredeemed shares. From and after the applicable Redemption Date, unless there shall have been a default in payment of the applicable Per Share Redemption Price or the Corporation is unable to pay the applicable Per Share Redemption Price due to not having sufficient legally available funds, all rights of the holder of such shares as holder of the Preferred Stock being redeemed (except the right to receive the applicable Per Share Redemption Price without interest upon surrender of their certificates), shall cease and terminate with respect to such shares; *provided* that in the event that shares of the Preferred Stock being redeemed are not redeemed due to a default in payment by the Corporation or because the Corporation does not have sufficient legally available funds, such shares of the Preferred Stock being redeemed shall remain outstanding and shall be entitled to all of the rights and preferences provided herein.

(c) The Corporation's obligation to redeem any shares of Preferred Stock pursuant to this Section 5 shall terminate upon the earlier of (i) the closing of the Qualified Initial Public Offering or (ii) the closing of a Deemed Liquidation Event as defined pursuant to Section 3(e)(i)(A)-(B).

6. Redeemed or Otherwise Acquired Shares. Any shares of Preferred Stock that are converted into Common Stock, redeemed or otherwise acquired by the Corporation or any of its subsidiaries shall be automatically and immediately cancelled and retired and shall not be reissued, sold or transferred. Neither the Corporation nor any of its subsidiaries may exercise any voting or other rights granted to the holders of Series A Preferred and/or Series B Preferred, as applicable, following redemption of such series of Preferred Stock.

7. Waiver. Any of the rights, powers, preferences and other terms of the Preferred Stock set forth herein may be waived on behalf of all holders of Preferred Stock by the affirmative written consent or vote of a majority of the shares of Preferred Stock then outstanding (voting together as a single class on an as converted to Common Stock basis); provided, however that notwithstanding the foregoing, any waiver of the rights, powers and preferences of (i) the Series A Preferred set forth in Section 4(m)(i)(A) and Section 5(a) shall require the affirmative written consent or vote of a majority of the shares of the Series A Preferred then outstanding or (ii) the Series B Preferred set forth in Section 4(m)(i)(B) and Section 5(b) shall require the affirmative written consent or vote of a majority of the shares of Series B Preferred then outstanding.

8. Notices. Any notice required to be delivered to or by the holders of Preferred Stock shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) (1) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with verification of receipt. All notices shall be addressed to each holder of record at the address of such holder appearing on the books of the Corporation and to the Corporation at its chief executive office.

9. Payment of Taxes. The Corporation will pay all taxes (other than taxes based upon income) and other governmental charges mat may be imposed with respect to the issuance or delivery of Common Stock upon conversion of shares of the Series A Preferred, excluding any tax or



other charge imposed in connection with any transfer involved in the issue and delivery of Common Stock in a name other than that in which the shares of the Series A Preferred so converted were registered.

10. No Dilution or Impairment. Without the consent of the holders a majority of the then outstanding Series A Preferred as required under Section 2(b), the Corporation shall not amend its Certificate of Incorporation or participate in any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or take any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but shall at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series A Preferred against dilution or other impairment.

B. COMMON STOCK

1. General. All preferences, voting powers, relative, participating, optional or other special rights and privileges, and qualifications, limitations, or restrictions of the Common Stock are expressly made subject to and subordinate to those that may be fixed with respect to any shares of the Preferred Stock.

2. Voting. Except as otherwise required by law or the Corporation's Certificate of Incorporation, each holder of shares of the Common Stock shall have one vote in respect of each share of stock held by such holder of record on the books of the Corporation for the election of directors and all matters submitted to a vote of shareholders of the Corporation. Except as otherwise provided in the Corporation's Certificate of Incorporation or Bylaws or as required by the Delaware General Corporation Law (the "***DGCL***"), the Preferred Stock shall vote together with the Common Stock and all other classes and series of stock of the Corporation as a single class on all actions to be taken by the shareholders of the Corporation including, without limitation, actions amending the Certificate of Incorporation of the Corporation. There shall be no cumulative voting.

FIFTH: Subject to any additional vote required by this Certificate of Incorporation or Bylaws, in furtherance and not in limitation of the powers conferred by statute, the Board is expressly authorized to make, repeal, alter, amend and rescind any or all of the Bylaws of the Corporation.

SIXTH: Subject to the DGCL and Article Fourth, Section A.2 of this Certificate of Incorporation, the number of directors of the Corporation shall be determined in the manner set forth in the Bylaws of the Corporation.

SEVENTH: Subject to the DGCL, elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

EIGHTH: Subject to the DGCL, meetings of stockholders may be held within or without the State of Delaware, as the Bylaws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

NINTH: To the fullest extent permitted by law, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL or any other law of the State of Delaware is amended after approval by the shareholders of this Article Ninth to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL as so amended. Any repeal or modification of the foregoing



provisions of this Article Ninth by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

TENTH: The Corporation renounces any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, any Excluded Opportunity, except to the extent that the failure to offer such Excluded Opportunity constitutes knowing and willful participation by a director in a breach of a binding contractual obligation between the Corporation and such director or any entity entitled to designate or elect such director. An "***Excluded Opportunity***" is any matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of, (i) any director of the Corporation who is not an employee of the Corporation or any of its subsidiaries, or (ii) any holder of Preferred Stock or any partner, member, director,

stockholder, employee or agent of any such holder, other than someone who is an employee of the Corporation or any of its subsidiaries (collectively, "***Covered Persons***") unless such matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the possession of, a Covered Person expressly and solely in such Covered Person's capacity as a director of the Corporation.

ELEVENTH: The name and mailing address of the incorporator is:

Steven Beauchamp
3850 N. Wilke Road
Arlington Heights, Illinois 60004

[*Remainder of page intentionally left blank*]



THE UNDERSIGNED, being the incorporator named above, for the purpose of forming a corporation pursuant to the DGCL, does make this certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 6th day of November, 2013.

/s/Steven Beauchamp
Steven Beauchamp
Incorporator

**Exhibit D**

**Assigned Contracts**

Amended and Restated Investor Rights Agreement, dated as of June 29, 2012, by and among PC, the Investors listed therein, Paylocity Management Holdings, LLC and the Key Executives listed therein (the "***Investor Rights Agreement***")

Amended and Restated Right of First Refusal and Co-Sale Agreement, dated as of June 29, 2012, by and among PC, Paylocity Management Holdings, LLC and the Preferred Holders listed therein

Amended and Restated Voting Agreement, dated as of June 29, 2013, by and among PC, the Key Holders listed therein and the Investors listed therein

Those certain Management Rights Letters, dated as of June 29, 2013, between PC and each of Adams Street 2006 Direct Fund, L.P., Adams Street 2007 Direct Fund, L.P., Adams Street 2008 Direct Fund, L.P., Adams Street 2009 Direct Fund, L.P., Adams Street 2010 Direct Fund, L.P., Adams Street 2011 Direct Fund, L.P., Adams Street 2012 Direct Fund, L.P., and Adams Street Co-Investment Fund II, L.P.

Paylocity Corporation 2008 Equity Incentive Plan, as amended

CERTIFICATE OF INCORPORATION

OF

PAYLOCITY HOLDING CORPORATION

FIRST: The name of the corporation is:

Paylocity Holding Corporation (the "***Corporation***")

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, zip code 19801. The name of the registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) 100,000,000 shares of Common Stock, $0.001 par value per share ("***Common Stock***") and (ii) 18,000,000 shares of Preferred Stock, $0.001 par value per share ("***Preferred Stock***").

The following is a statement of the designations and the powers, privileges and rights and the qualifications, limitations or restrictions thereof in respect of each class of capital stock.

A. PREFERRED STOCK

9,500,000 shares of the authorized and unissued Preferred Stock of the Corporation are hereby designated "***Series A Preferred***" and 8,500,000 shares of the authorized and unissued Preferred Stock of the Corporation are hereby designated "***Series B Preferred***," each with the following rights, preferences, powers, privileges and restrictions, qualifications and limitations. Unless otherwise indicated, references to "Sections" or "Subsections" of this Part A of this Article Fourth refer to sections and subsections of Part A of this Article Fourth.

1. Dividends.

(a) **Dividends**. Holders of the Series A Preferred, in preference to the holders of the Common Stock and pari passu with the holders of Series B Preferred, shall be entitled to receive, when and as declared by the Board of Directors of the Corporation (the "***Board***"), but only out of funds that are legally available therefor, cash dividends at the rate of six percent (6%) of the Series A Original Issue Price (as defined below) per annum on each outstanding share of Series A Preferred (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof), compounded annually. The "***Series A Original Issue Price***" of the Series A Preferred shall be one dollar ($1.00) per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination of shares, reverse stock split, reorganization, recapitalization, or other reclassification (each a "***Recapitalization Event***") affecting the Series A Preferred. Holders of the Series B Preferred, in preference to the holders of the Common Stock and pari passu with the Holders of Series A Preferred, shall be entitled to receive, when and as declared by the Board, but only out of funds that are legally available therefor, cash dividends at the rate of eight percent (8%) of the Series B Original Issue Price (as defined below) per annum on each outstanding share of Series B Preferred (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof), compounded annually. The "***Series B Original Issue Price***" of the



Series B Preferred shall be $3.2481 per share, subject to appropriate adjustment in the event of any Recapitalization Event affecting the Series B Preferred. The dividends described in this Section 1(a) shall accrue from day to day, whether or not declared, and shall be cumulative; provided, however, that except as set forth in the following sentence of this Section 1(a) or in Sections 3(b) and 5, such dividends shall be payable only when, as, and if declared by the Board and the Corporation shall be under no obligation to pay such dividends. The Corporation shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than dividends on shares of Common Stock payable in Common Stock) unless (in addition to the obtaining of any consents required elsewhere in the Certificate of Incorporation) the holders of any Series A Preferred and Series B Preferred then outstanding shall first receive, or simultaneously receive (in addition to any dividend payable pursuant to Section 1(b), below), a dividend equal to all dividends then accrued on such share of Series A Preferred and Series B Preferred and not previously paid. In the event that a dividend is to be paid on the Series A Preferred and Series B Preferred in an amount less than the aggregate amount of accrued but unpaid dividends, such dividends shall be allocated pro rata among the shares of Series A Preferred and Series B Preferred based upon the number of shares on an as-converted to Common Stock basis.

(b) **Participation in Common Stock Dividends**. So long as any shares of Preferred Stock shall be outstanding, no dividend, whether in cash or property, shall be paid or declared, nor shall any other distribution be made, on any share of the Common Stock, nor shall any share of the Common Stock be purchased, redeemed, or otherwise acquired for value by the Corporation (except for acquisitions of shares of the Common Stock by the Corporation pursuant to agreements which permit the Corporation to repurchase such shares upon termination of services to the Corporation or in exercise of the Corporation's right of first refusal upon a proposed transfer) until all accrued dividends set forth in Section 1(a) above on the Series A Preferred shall have been paid. In the event dividends are paid on any share of the Common Stock, an additional dividend shall be paid with respect to all outstanding shares of Preferred Stock in an amount equal per share (on an as-if-converted to Common Stock basis) to the amount paid or set aside for each share of Common Stock, provided, however, in the event that the payment of such dividends would cause the Aggregate Distributions (as defined below) with respect to a share of Series A Preferred to equal (i) the product of (x) the applicable Original Purchase Price and (y) the Applicable Multiple (as defined below) (the "***Cap Amount***"), then the shares of Series A Preferred shall only participate in such dividends on the Common Stock to the extent necessary to cause the Aggregate Distributions (after giving effect to the payment of such dividend) to equal the greater of (x) the Cap Amount and (y) the Pro Forma As Converted Amount (as defined below). In the event of a Recapitalization Event with respect to the Preferred Stock, any dividends paid with respect to shares of Series A Preferred or Series B Preferred prior to such Recapitalization Event shall be allocated among the shares of Series A Preferred or Series B Preferred, as applicable, outstanding following such Recapitalization Event ratably as determined by the Board at the time of such Recapitalization Event, and similar ratable adjustments shall be made with respect to the calculation of the Pro Forma As Converted Amount, if applicable. Notwithstanding anything to the contrary in this Section 1, the outstanding shares of Preferred Stock shall not be entitled to any additional dividend from the Corporation resulting from the payment made by Paylocity Corporation (the "***Prior Corporation***") in connection with the redemption of shares of Common Stock of the Prior Corporation on or about June 29, 2012 (the "***Special Redemption***").

(i) The "***Applicable Multiple***" shall mean with respect to the Series A Preferred, 2.25.

(ii) "***Aggregate Distributions***" shall mean the aggregate amount received on account of a share of Series A Preferred pursuant to dividends and distributions made pursuant to this Section 1 or pursuant to a Liquidation or Deemed Liquidation Event pursuant to Section 3 (each a "***Distribution Event***"); provided, that for the purpose hereof, the Special Redemption shall not constitute a Distribution Event.



(iii) "***Pro Forma As Converted Amount***" shall mean the sum of the Theoretical Distribution Amounts on account of a share of Series A Preferred in connection with all Distribution Events.

(iv) "***Theoretical Distribution Amount(s)***" shall mean, in connection with any Distribution Event, the product of (x) the aggregate amount of distributions received on account of each Common Share in connection with such Distribution Event multiplied by (y) the number of Common Stock issuable upon the conversion of such share of Series A Preferred had it been converted into Common Stock in accordance with the terms hereof immediately prior to the earlier of such Distribution Event or the record date, if any, with respect to such Distribution Event.

2. Voting.

(a) **General Rights**. On any matter presented to the shareholders of the Corporation for their action or consideration at any meeting of shareholders of the Corporation (or by written consent of shareholders in lieu of meeting), each holder of shares of the Preferred Stock shall be entitled to the number of votes equal to the number of Common Stock into which such shares of the Preferred Stock could be converted (pursuant to Section 4 hereof) immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent and shall have voting rights and powers equal to the voting rights and powers of the Common Stock and shall be entitled to notice of any shareholders' meeting in accordance with the Bylaws of the Corporation. Any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of the Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number of votes (with one half being rounded upward). Except as otherwise provided herein or as required by law, the Preferred Stock shall vote together with the Common Stock at any annual or special meeting of the shareholders and not as a separate class, and may act by written consent in the same manner as the Common Stock. There shall be no cumulative voting.

(b) **Separate Vote of Preferred Stock**. In addition to any other vote or consent required herein or by law, so long as any shares of Preferred Stock remain outstanding, the vote or written consent of the holders of at least a majority of the outstanding shares of Preferred Stock (voting as a single class on an as converted to Common Stock basis) shall be necessary for effecting or validating the following actions, (whether such action is to be taken pursuant to contract, agreement, amendment, recapitalization, merger, consolidation or otherwise):

(i) create, or authorize the creation of, or issue or obligate itself to issue shares of, any additional class or series of capital stock unless the same ranks junior to the Series A Preferred with respect to the distribution of assets on the liquidation, dissolution or winding up of the Corporation, the payment of dividends and redemption rights, or increase the authorized number of shares of Preferred Stock or increase the authorized number of shares of any class or series of capital stock;

(ii) adopt or approve any stock option or similar stock or equity incentive plan (an "***Option Plan***")for the benefit of the employees, officers, directors or consultants of the Corporation or any of its subsidiaries ("***Service Providers***"), increase the number of shares reserved in connection with awards pursuant to any Option Plan adopted, or issue any stock option or other equity incentive to any Service Provider other than pursuant to an Option Plan;

(iii) amend, alter or repeal any provision of the Certificate of Incorporation or Bylaws of the Corporation, in a manner which adversely impacts the rights, preferences or privileges of the Preferred Stock;



(iv) purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Corporation other than (1) redemptions of or dividends or distributions on the Preferred Stock as expressly authorized herein, (2) dividends or other distributions payable on the Common Stock solely in the form of additional shares of the Common Stock, (3) pursuant to the terms of any agreements or arrangements between the Corporation and Paylocity Management Holdings, LLC (the "***Management LLC***"), (4) repurchases of stock from former Service Providers in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof, or (5) as approved by the Board, including the approval of the director designated by the holders of a majority of the Preferred Stock and Common Stock issued upon conversion of the Preferred Stock pursuant to that certain Amended and Restated Voting Agreement, dated as of June 29, 2012, as assumed by the Corporation, as it may be amended and/or restated from time to time (the "***Preferred Director***");

(v) any recapitalization, restructuring or similar action (including a reverse stock split or similar combination of any outstanding shares of capital stock of the Corporation) which materially and adversely affects the rights, privileges or benefits of the Preferred Stock (including, without limitation, by cashing out of fractional shares or similar action);

(vi) any increase or decrease in the number of directors constituting the Board; or

(vii) permit any subsidiary of the Corporation to take or agree to take any action that the Corporation would be prohibited from taking pursuant to Subsection 2(b)(i)-(vi), Subsection 2(d)(i)-(ix) or as otherwise set forth in this Certificate of Incorporation.

(c) **Election of Board.** The Board shall consist of five (5) directors. At any meeting held for the purpose of electing a director, the presence in person or by proxy of the holders of a majority of the outstanding shares of the class or series entitled to elect such director shall constitute a quorum for the purpose of electing such director.

(d) **Special Board Approval.** In addition to any other vote or consent required herein or by law, so long as any shares of Preferred Stock remain outstanding, the approval of the Board, including the approval of the Preferred Director, shall be necessary for effecting or validating the following actions (whether such action is to be taken pursuant to contract, agreement, amendment, recapitalization, merger, consolidation or otherwise):

(i) create, or hold capital stock in, any subsidiary that is not wholly owned (either directly or through one or more other subsidiaries) by the Corporation, or sell, transfer or otherwise dispose of any capital stock of any direct or indirect subsidiary of the Corporation, or permit any direct or indirect subsidiary to sell, lease, transfer, exclusively license or otherwise dispose (in a single transaction or series of related transactions) of all or substantially all of the assets of such subsidiary;

(ii) assume, guarantee, endorse or otherwise become directly or contingently liable on (including, without limitation, liability by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) any indebtedness of any other person or entity, except for (a) guaranties by endorsement of negotiable instruments for deposit or collection in the ordinary course of business and (b) the guaranties of the permitted obligations of any wholly-owned subsidiary, or permit any of its subsidiaries to do any of the foregoing;



(iii) make any loan or extend any credit, or permit any subsidiary to take any such action, to any person or entity, other than customary employee advances or receivables of the Corporation and its subsidiaries owing in the ordinary course of business from their respective customers;

(iv) create, or authorize the creation of, or issue, or authorize the issuance of any debt security, or permit any subsidiary to take any such action with respect to any debt security if the aggregate indebtedness of the Corporation and its subsidiaries for borrowed money following such action would exceed $1,000,000, except that this subparagraph (iv) shall not apply to trade credit incurred in the ordinary course of business;

(v) any grant of a stock option or other award pursuant to an Option Plan to any director or the President, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer or any functional equivalent of any of the foregoing of the Corporation (collectively, the ***"Senior Managers"***) or any of their parents, spouses or descendants (including by adoption);

(vi) enter into a transaction or agreement between the Corporation and any officer, director or employee of the Corporation or any affiliate thereof, except (i) in connection with ordinary course employment matters and (ii) other transactions resulting in annual payments of not more than $50,000) and which, in either case, the disinterested members of the Board determine are fair to the Corporation;

(vii) the hiring or termination of, or any change or award of compensation (whether salary, bonus or otherwise, but excluding insurance and similar benefits under any applicable employee benefit plan made generally available to the Corporation's employees) to, the Corporation's Chief Executive Officer, President or Vice President of Sales and Marketing;

(viii) engage in any business other than the business of providing payroll services, human resource and time and labor software solutions and business related or ancillary thereto; or

(ix) any agreement or any other action to license on an exclusive basis or otherwise transfer any or all of the Corporation's rights in the intellectual property or any other proprietary information of the Corporation to any other entity or person.

3. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales.

(a) **Preferential Payments to Holders of Series B Preferred**. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation (each, a "***Liquidation***"),the holders of shares of Series B Preferred then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its shareholders pari passu with the payments that shall be made to the holders of the Series A Preferred and before any payments to be made to the holders of the Common Stock, in each case by reason of their ownership thereof, an amount per share equal to (i) the Series B Original Issue Price plus (ii) any dividends accrued but unpaid thereon plus (iii) if such Liquidation occurs on or before June 29, 2014, an amount equal to ten percent (10%) of the Series B Original Issue Price per annum on each outstanding share of Series B Preferred (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof), compounded annually. The aggregate amount which a holder of a share of Series B is



entitled to receive for each share of Preferred Series B under Subsection 3(a) is hereinafter referred to as the "***Series B Preferred Liquidation Amount***."

(b) **Preferential Payments to Holders of Series A Preferred**. In the event of any Liquidation, the holders of shares of Series A Preferred then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its shareholders pari passu with the payment of all preferential amounts required to be paid to the holders of shares of Series B Preferred pursuant to Subsection 3(a) and before any payment shall be made to the holders of the Common Stock, in each case by reason of their ownership thereof, an amount per share equal to the Series A Original Issue Price plus any dividends accrued but unpaid thereon. If upon any such Liquidation, the assets of the Corporation available for distribution to its shareholders shall be insufficient to pay the holders of shares of Series A Preferred and Series B Preferred the full amount to which they shall be entitled under this Subsection 3(a) and Subsection 3(b), the holders of shares of Series A Preferred and Series B Preferred shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(c) **Distribution of Remaining Assets**. In the event of any Liquidation, after the payment of all preferential amounts required to be paid to the holders of shares of Series A Preferred and Series B Preferred pursuant to Subsections 3(a) and 3(b), the remaining assets of the Corporation available for distribution to its shareholders shall be distributed among the holders of the shares of Series A Preferred and the Common Stock, pro rata based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to shares of the Common Stock pursuant to the terms of this Certificate of Incorporation immediately prior to such Liquidation. The aggregate amount which a holder of a share of Series A Preferred is entitled to receive for each share of Series A Preferred under Subsections 3(b) and 3(c) is hereinafter referred to as the "***Series A Preferred Liquidation Amount***" and together with the Series B Preferred Liquidation Amount, the "***Preferred Liquidation Amount***".

(d) **Cap on Series A Preferred Liquidation Amount**. Notwithstanding Subsections 3(b) and 3(c) above, if the Series A Preferred Liquidation Amount would cause the amount of Aggregate Distributions on account of a share of Series A Preferred to exceed the Cap Amount as of the

date of distribution of the proceeds of Liquidation or in connection with a Deemed Liquidation Event, then, in lieu of the Series A Preferred Liquidation Amount the holders of Series A Preferred shall be entitled to receive an amount of the proceeds of such Liquidation or Deemed Liquidation Event which is sufficient to cause the amount of Aggregate Distributions on account of a share of Series A Preferred (after giving effect to all distributions pursuant to such Liquidation or Deemed Liquidation Event) to equal the greater of (x) the Cap Amount and (y) the Pro Forma As Converted Amount.

(e) **Deemed Liquidation Events**.

(i) Definition. Each of the following events shall be considered a "***Deemed Liquidation Event***" unless the holders of a majority of the outstanding shares of Preferred Stock elect otherwise by written notice sent to the Corporation at least fifteen (15) days prior to the effective date of any such event:

(A) a merger or consolidation in which the Corporation is a constituent party or a subsidiary of the Corporation is a constituent party and the Corporation issues shares of its capital stock pursuant to such merger or consolidation, except any such merger or consolidation involving the Corporation or a subsidiary in which the shares of capital stock of the Corporation outstanding immediately prior to such merger or consolidation continue to represent, or are



converted into or exchanged for, shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation (provided that, for the purpose of this Subsection 3(e), all shares of the Common Stock issuable upon exercise of Options (as defined herein) outstanding immediately prior to such merger or consolidation or upon conversion of Convertible Securities (as defined herein) outstanding immediately prior to such merger or consolidation shall be deemed to be outstanding immediately prior to such merger or consolidation and, if applicable, converted or exchanged in such merger or consolidation on the same terms as the actual outstanding shares of Common Stock are converted or exchanged);

(B) the transfer (whether by merger, consolidation or otherwise), in one transaction or a series of related transactions, to any person, entity or group of affiliated persons or entities), of the Corporation's outstanding securities possessing 50% or more of the outstanding voting power of all then outstanding voting securities of the Corporation (except for any such entity in which the holders of 100% of the voting capital stock of the Corporation immediately prior to such transaction hold more than 50% of the voting rights of such transferee entity), provided, however, that notwithstanding the foregoing, the distribution of the Corporation's securities by Management LLC to its unitholders after the date of filing of this Certificate of Incorporation shall not constitute a Deemed Liquidation Event; or

(C) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Corporation or any subsidiary of the Corporation of all or substantially all the assets of the Corporation and its subsidiaries taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more subsidiaries of the Corporation if substantially all of the assets of the Corporation and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Corporation.

(ii) Effecting a Deemed Liquidation Event.

(A) The Corporation shall not have the power to effect a Deemed Liquidation Event referred to in this Section 3(e) above unless the definitive agreement for such transaction (the "***Transaction Agreement***")provides that the consideration payable to the shareholders of the Corporation shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 3(a), 3(b) and 3(c) above.

(B) In the event of a Deemed Liquidation Event referred to in Subsection 3(e)(i)(A) or 3(e)(i)(B) above, if the Corporation does not effect a dissolution of the Corporation under the DGCL within ninety (90) days after such Deemed Liquidation Event, then (i) the Corporation shall send a written notice to each holder of Preferred Stock no later than the ninetieth ($90^{th}$) day after the Deemed Liquidation Event advising such holders of their right (and the requirements to be met to secure such right) pursuant to the terms of the following clause (ii) to require the redemption of such shares of Preferred Stock, and (ii) if the holders of at least a majority of the then outstanding shares of Preferred Stock (voting as a single class on an as converted to Common Stock basis) so request in a written instrument delivered to the Corporation not later than one hundred twenty (120) days after such Deemed Liquidation Event, the Corporation shall use the consideration received by the Corporation for such Deemed Liquidation Event (net of any retained liabilities associated with the assets sold or technology licensed, as determined in good faith by the Board of the Corporation) (the "***Net Proceeds***"), to the extent legally available therefor, on the one hundred fiftieth (150th) day after such Deemed Liquidation Event, to redeem all outstanding shares of Preferred Stock at a price per share equal to the



Preferred Liquidation Amount. Notwithstanding the foregoing, in the event of a redemption pursuant to the preceding sentence, if the Net Proceeds are not sufficient to redeem all outstanding shares of the Preferred Stock, or if the Corporation does not have sufficient lawfully available funds to effect such redemption, the Corporation shall redeem a pro rata portion of each holder's shares of Preferred Stock to the fullest extent of such Net Proceeds or such lawfully available funds, as the case may be, based on the respective amounts which would otherwise be payable in respect of the shares to be redeemed if the legally available funds were sufficient to redeem all such shares, and shall redeem the remaining shares to have been redeemed as soon as practicable after the Corporation has funds legally available therefor. The provisions of Section 5 below shall apply, with such necessary changes in the details thereof as are necessitated by the context, to the redemption of Preferred Stock pursuant to this Subsection 3(e)(ii)(B). Prior to the distribution or redemption provided for in this Subsection 3(e)(ii)(B), the Corporation shall not expend or dissipate the consideration received for such Deemed Liquidation Event, except to discharge expenses incurred in connection with such Deemed Liquidation Event or in the ordinary course of business.

(iii) Amount Deemed Paid or Distributed. If the amount deemed paid or distributed under this Subsection 3(e)(iii) is made in property other than in cash, the value of such distribution shall be the fair market value of such property, determined by the Board, or in the event of securities as follows:

(A) For securities not subject to investment letters or other similar restrictions on free marketability,

(1) if traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange or market over the thirty (30) trading day period ending three (3) days prior to the closing of such transaction;

(2) if actively traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the thirty (30) trading day period ending three (3) days prior to the closing of such transaction; or

(3) if there is no active public market, the value shall be the fair market value thereof, as determined by the Board acting in good faith.

(B) The method of valuation of securities subject to investment letters or other similar restrictions on free marketability (other than restrictions arising solely by virtue of a shareholder's status as an affiliate or former affiliate) shall take into account an appropriate discount (as mutually determined by the Board and holders of at least a majority of the outstanding shares of the Preferred Stock voting as a single class on an as converted to Common Stock basis) from the market value as determined pursuant to clause (1) above so as to reflect the approximate fair market value thereof.

In any such case, the Board shall notify each holder of shares of Preferred Stock of its determination of the fair value or allocation, as the case may be, of such consideration prior to payment or accepting receipt thereof. If, within ten (10) days after receipt of such notice, the holders of a majority of the shares of the Preferred Stock (voting as a single class on an as converted to Common Stock basis) then outstanding shall notify the Board in writing of their objection to such determination, a determination of the fair value of such consideration or allocation, as the case may be, shall be made by a nationally recognized independent investment banking firm acceptable to the Corporation and the holders of at least a majority of the shares of the Preferred Stock then outstanding (voting as a single class on an as converted to Common Stock basis). If the parties are unable to agree on such an investment banking firm,



one shall be chosen by two nationally recognized independent investment banking firms, one of which shall be designated by the Corporation and one of which shall be designated by the holders of at least a majority of the shares of the Preferred Stock then outstanding (voting as a single class on an as converted to Common Stock basis). The Corporation shall bear the entire cost of the fees and expenses borne by the parties in such determination of fair market value.

(iv) Allocation of Escrow. In the case of a Deemed Liquidation Event, if any portion of the consideration payable to the shareholders of the Corporation is placed into escrow and/or is payable to the shareholders of the Corporation subject to contingencies or is otherwise paid on a deferred basis, the Transaction Agreement shall provide that (1) the portion of such consideration that is not placed in escrow and not subject to any contingencies (the ***"Initial Consideration"***) shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 3(a) through 3(d) above as if the Initial Consideration were the only consideration payable in connection with such Deemed Liquidation Event and (2) any additional consideration which becomes payable to the shareholders of the Corporation upon release from escrow or satisfaction of contingencies shall be allocated among the holders of capital stock of the Corporation in accordance with Subsections 3(a) through 3(c) above after taking into account the previous payment of the Initial Consideration as part of the same transaction.

(v) Deemed Conversion. For the purposes hereof, in the event a holder of Series B Preferred would receive an a greater amount of the proceeds were such holder to have converted such Series B Preferred to Common Stock immediately prior to the consummation of such Deemed Liquidation, then such holder of Series B Preferred shall be deemed to have converted for the purposes of the allocation of the proceeds from a Deemed Liquidation Event, so that, in any event the aggregate proceeds a holder of Series B Preferred receives is the greater of (x) the amount specified pursuant to Subsections 3(a) and (y) the amount that would have been received if such holder of Series B Preferred converted such Series B Preferred into Common Stock immediately prior to the consummation of such Deemed Liquidation Event.

4. Conversion. The holders of the Preferred Stock shall have the following rights with respect to the conversion of the Preferred Stock into shares of the Common Stock (the "***Conversion Rights***"):

(a) **Optional Conversion**. Subject to and in compliance with the provisions of this Section 4, any shares of the Preferred Stock may, at the option of the holder, be converted at any time into fully-paid and nonassessable Common Stock. The number of shares of Common Stock to which a holder of the Preferred Stock shall be entitled upon conversion shall be the product obtained by multiplying the applicable Series A Preferred Conversion Rate or Series B Conversion Rate then in effect (determined as provided in Section 4(b)) by the number of shares of the Series A Preferred or Series B Preferred, as applicable, being converted.

(b) **Conversion Rate**. The conversion rate in effect at any time for conversion of the Series A Preferred (the "***Series A Preferred Conversion Rate***") shall be the quotient obtained by dividing the Series A Original Issue Price by the Series A Preferred Conversion Price, calculated as provided in Section 4(c). The conversion rate in effect at any time for conversion of the Series B Preferred (the "***Series B Preferred Conversion Rate***") shall be the quotient obtained by dividing the Series B Original Issue Price by the Series B Preferred Conversion Price, calculated as provided in Section 4(c). "***Conversion Rate***" shall mean the Series A Preferred Conversion Rate or Series B Preferred Conversion Rate, as applicable.



(c) **Conversion Price**. The conversion price for the Series A Preferred (the "***Series A Preferred Conversion Price***") shall initially be the Series A Original Issue Price. The conversion price for the Series B Preferred (the "***Series B Preferred Conversion Price***") shall initially be the Series B Original Issue Price. The initial Series A Preferred Conversion Price and Series B Preferred Conversion Price, as applicable, shall be adjusted from time to time in accordance with this Section 4. All references to the Series A Preferred Conversion Price and Series B Preferred Conversion Price herein shall mean the applicable Series A Preferred Conversion Price and Series B Preferred Conversion Price, as so adjusted.

(d) **Mechanics of Conversion**. Each holder of the Preferred Stock who desires to convert the same into Common Stock pursuant to this Section 4 shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or any transfer agent for the Preferred Stock, and shall give written notice to the Corporation at such office that such holder elects to convert the same. Such notice shall state the number of shares of the Preferred Stock being converted. Thereupon, the Corporation shall promptly (but in no event more than three (3) business days after delivery of the notice required by the first sentence of this Section 4(d)) issue and deliver at such office to such holder a certificate or certificates for the number of shares of Common Stock to which such holder is entitled and shall promptly pay in cash (i) any declared and unpaid dividends on the shares of such Preferred Stock being converted and (ii) the fair market value, as determined in good faith by the Board as of the date of conversion, of any fractional share of the Common Stock otherwise issuable to any holder of the Preferred Stock. Such conversion shall be deemed to have been made at the close of business on the date of such surrender of the

certificates representing the shares of the Preferred Stock to be converted, and the person entitled to receive the shares of the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of the Common Stock on such date.

(e) **Adjustment for Stock Splits and Combinations**. If at any time or from time to time after June 29, 2012 (the "***Series B Original Issue Date***"), the Corporation effects a subdivision of the outstanding shares of the Common Stock without a corresponding subdivision of the Preferred Stock, the Series A Preferred Conversion Price and Series B Conversion Price in effect immediately before that subdivision shall be proportionately decreased. Conversely, if at any time or from time to time after the Series B Original Issue Date the Corporation combines the outstanding shares of the Common Stock into a smaller number of shares without a corresponding combination of the Preferred Stock, the Series A Preferred Conversion Price and Series B Conversion Price in effect immediately before the combination shall be proportionately increased. Any adjustment under this Section 4(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) **Adjustment for Common Stock Dividends and Distributions**. If at any time or from time to time after the Series B Original Issue Date, the Corporation pays a dividend or other distribution in additional shares of the Common Stock, the applicable Series A Preferred Conversion Price and Series B Conversion Price that are then in effect shall be decreased as of the time of such issuance, as provided below.

(i) The Series A Preferred Conversion Price and Series B Conversion Price shall be adjusted by multiplying such Series A Preferred Conversion Price and Series B Conversion Price, respectively, then in effect by a fraction:

(A) the numerator of which is fee total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance, and



(B) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance plus the number of shares of Common Stock issuable in payment of such dividend or distribution;

(ii) If the Corporation fixes a record date to determine which holders of the Common Stock are entitled to receive such dividend or other distribution, the applicable Series A Preferred Conversion Price and Series B Preferred Conversion Price shall be fixed as of the close of business on such record date and the number of shares of the Common Stock shall be calculated immediately prior to the close of business on such record date; and

(iii) If such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the applicable Series A Preferred Conversion Price and Series B Preferred Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Series A Preferred Conversion Price and Series B Preferred Conversion Price shall be adjusted pursuant to this Section 4(f) to reflect the actual payment of such dividend or distribution.

(g) **Adjustment for Reclassification, Exchange and Substitution**. If at any time or from time to time after the Series B Original Issue Date, the Common Stock issuable upon the conversion of the Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a Deemed Liquidation Event or a subdivision or combination of shares or stock dividend or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this Section 4), in any such event each holder of the Preferred Stock shall then have the right to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change by holders of the maximum number of shares of the Common Stock into which such shares of the Preferred Stock could have been converted immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

(h) **Reorganizations, Mergers or Consolidations**. If at any time or from time to time after the Series B Original Issue Date, there is a capital reorganization of the Common Stock or the merger or consolidation of the Corporation with or into another corporation or another entity or person (other than a Deemed Liquidation Event or a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares provided for elsewhere in this Section 4), as a part of such capital reorganization, merger or consolidation, provision shall be made so that the holders of the Preferred Stock shall thereafter be entitled to receive upon conversion of the Preferred Stock the number of shares of stock or other securities or property of the Corporation to which a holder of the number of shares of the Common Stock deliverable upon conversion would have been entitled on such capital reorganization, merger or consolidation subject to adjustment in respect of such stock or securities by the terms thereof. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 4 with respect to the rights of the holders of the Preferred Stock after the capital reorganization to the end that the provisions of this Section 4 (including adjustment of the Series A Preferred Conversion Price and Series B Conversion Price then in effect and the number of shares issuable upon conversion of the Preferred Stock), shall be applicable after that event and be as nearly equivalent as practicable.

(i) **Sale of Shares Below Conversion Price**.

(i) If at any time or from time to time after the Series B Original Issue Date, the Corporation issues or sells, or is deemed by the express provisions of this Section 4(i) to



have issued or sold, Additional Shares of Common Stock (as defined herein), other than as a dividend or other distribution on any class of stock as provided in Section 4(f) above, and other than a subdivision or combination of shares of the Common Stock as provided in Section 4(e) above, for an Effective Price (as defined herein) less than the then-effective Series A Preferred Conversion Price or Series B Preferred Conversion Price, then and, in each such case, the then-effective Series A Preferred Conversion Price and/or Series B Preferred Conversion Price shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying such Series A Preferred Conversion Price and/or Series B Preferred Conversion Price in effect immediately prior to such issuance or sale by a fraction:

(A) the numerator of which shall be (1) the number of Shares of Common Stock Outstanding (as defined herein) immediately prior to such issue or sale, plus (2) the number of shares of the Common Stock which the Aggregate Consideration (as hereinafter defined) received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the then-effective Series A Preferred Conversion Price or Series B Preferred Conversion Price, as applicable, and

(B) the denominator of which shall be the number of Shares of Common Stock Outstanding immediately prior to such issue or sale plus the total number of Additional Shares of Common Stock so issued.

Notwithstanding the foregoing, such adjustment to the then existing Series A Preferred Conversion Price and/or Series B Conversion Price may be waived by the holders of a majority of the Series A Preferred and/or Series B Preferred, respectively, voting as a separate class, then outstanding.

(ii) No adjustment shall be made to any Series A Preferred Conversion Price or Series B Preferred Conversion Price under this Section 4(i) in an amount less than one cent ($0.01) per share. Any adjustment otherwise required by this Section 4(i) and that is not required to be made due to the preceding sentence shall be included in any subsequent adjustment to the Series A Preferred Conversion Price or Series B Preferred Conversion Price.

(iii) As used in this Section 4(i) and elsewhere in this Certificate of Incorporation, capitalized terms shall have the following meanings:

(A) "***Additional Shares of Common Stock***" means all Common Stock issued by the Corporation or deemed to be issued pursuant to this Section 4(i) (including shares of the Common Stock subsequently reacquired or retired by the Corporation), other than:

(1) Common Stock issued upon conversion of the Preferred Stock;

(2) Common Stock issuable upon the exercise of Options or otherwise issued as, or upon the exercise or conversion of, awards pursuant to any Option Plan, to the extent such Option Plan has been approved in accordance with the terms of Section 2(b);

(3) Common Stock, Options or Convertible Securities issued as a dividend or distribution on or with respect to any Series A Preferred, or, to the extent subject to any of Sections 4(d) through 4(h), on or with respect to any Common Stock;

(4) Common Stock, or Options to purchase Common Stock, issued to financial institutions, lenders or lessors in connection with bona fide



commercial credit arrangements, equipment financings, commercial property leases, or similar transactions, the terms of which have been approved by the Board, including the Preferred Director;

(5) Common Stock or Options to purchase Common Stock issued in connection with bona fide acquisitions, mergers, strategic partnership transactions or similar transactions, the terms of which have been approved by the Board, including the Preferred Director, and

(6) Common Stock issued or issuable in a public offering, the terms of which have been approved by the Board, including the Preferred Director.

(7) References in this definition of "Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Corporation or deemed to be issued pursuant to this Section 4(i).

(B) "***Aggregate Consideration***" means: (A) to the extent it consists of cash, the net amount of cash received by the Corporation after deduction of any underwriting or similar commissions, compensation or concessions paid or allowed by the Corporation in connection with such issue or sale but without deduction of any expenses payable by the Corporation, (B) to the extent it consists of property other than cash, the fair value of that property as determined in good faith by the Board, and (C) if Additional Shares of Common Stock, Convertible Securities or rights or Options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration which covers both, the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or Options. In any case in which the determination of the Board is required pursuant to subclause (B) or (C) above, the Board shall notify each holder of the Preferred Stock of its determination of the fair value or allocation, as the case may be, of such consideration prior to payment or accepting receipt thereof. If, within ten (10) days after receipt of said notice, the holders of a majority of the Series A Preferred then outstanding shall notify the Board in writing of their objection to such determination, a determination of the fair value of such consideration or allocation, as the case may be, shall be made by a nationally recognized independent investment banking firm acceptable to the Corporation and the holders of a majority of the Preferred Stock then outstanding. If the parties are unable to agree on such an investment banking firm, one shall be chosen by two nationally recognized independent investment banking firms, one of which shall be designated by the Corporation and one of which shall be designated by the holders of a majority of the Preferred Stock then outstanding. The Corporation shall bear the entire cost of the fees and expenses borne by the parties in such determination of the fair value.

(C) "***Shares of Common Stock Outstanding***" means, as of any given date, the sum of (1) the number of shares of the Common Stock outstanding, (2) the number of shares of the Common Stock into which the then outstanding shares of the Preferred Stock could be converted if fully converted on the day immediately preceding the given date, (3) the number of shares of Common Stock issuable upon exercise of all Options outstanding on the day immediately preceding the given date and (4) the number of Common Stock issuable upon the conversion or exchange of Convertible Securities outstanding on the day immediately preceding the given date and, without duplication of any amounts included in clause (3) of this definition, Convertible Securities issuable upon the exercise of Options outstanding on the day immediately preceding the given date.

(D) "***Convertible Securities***" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for shares of the Common Stock, but excluding Options.



(E) "***Effective Price***" means the quotient determined by dividing the total number of Additional Shares of Common Stock issued or sold, or deemed to have been issued or sold by the Corporation under this Section 4(i), into the Aggregate Consideration received, or deemed to have been received by the Corporation for such issue under this Section 4(i), for such Additional Shares of Common Stock.

(F) "***Option***" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(j) **Multiple Closing Dates**. In the event the Corporation shall issue on more than one date Additional Shares of Common Stock that are a part of one transaction or a series of related transactions and that would result in an adjustment to the Series A Preferred Conversion Price or Series B Preferred Conversion Price pursuant to the terms of Section 4(i) above then, upon the final such issuance, the Series A Conversion Price and/or Series B Preferred Conversion Price, as applicable, shall be readjusted to give effect to all such issuances as if they occurred on the date of the first such issuance (and without giving effect to any additional adjustments as a result of any such subsequent issuances within such period).

(k) **Certificate of Adjustment**. In each case of an adjustment or readjustment of the Series A Preferred Conversion Price or Series B Preferred Conversion Price for the number of shares of the Common Stock or other securities issuable upon conversion of the Preferred Stock, if the Preferred Stock is then convertible pursuant to this Section 4, the Corporation, at its expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the Preferred Stock at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or deemed to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the Effective Price of any such Additional Shares of Common Stock, (iii) the Series A Preferred Conversion Price and Series B Preferred Conversion Price at the time in effect, (iv) the number of Additional Shares of Common Stock and (v) the type and amount, if any, of other property which at the time would be received upon conversion of the Preferred Stock.

(l) **Notices of Record Date**. Upon (i) any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any Deemed Liquidation Event or other capital reorganization of the Corporation, any Recapitalization Event, any merger or consolidation of the Corporation with or into any other corporation, or any voluntary or involuntary dissolution, liquidation or winding up of the Corporation, the Corporation shall mail to each holder of the Preferred Stock at least ten (10) days prior to the record date specified therein (or such shorter period approved by the holders of a majority of the outstanding Preferred Stock voting together as a single class on an as converted to Common Stock basis) a notice specifying (A) the date on which any such record is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (B) the date on which any such Deemed Liquidation Event, Recapitalization Event, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (C) the date, if any, that is to be fixed as to when the holders of record of the Common Stock (or other securities) shall be entitled to exchange their shares of the Common Stock (or other securities) for securities or other property deliverable upon such Deemed Liquidation Event, Recapitalization Event, transfer, consolidation, merger, dissolution, liquidation or winding up.



(m) **Automatic Conversion**.

(i) Upon the closing of the sale of shares of the Common Stock to the public at a price of at least $5.6842 per share (as adjusted for any Recapitalization Event with respect to the Common Stock), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act, resulting in at least Fifty Million Dollars ($50,000,000) of gross proceeds, before deduction of underwriting discounts and commissions, to the Corporation, and the shares issued for such offering are listed or eligible for trading on a national securities exchange (clauses (A) and (B) each a "***Qualified Initial Public Offering***"), or (C) with respect to the Preferred Stock, the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the then outstanding shares of the Preferred Stock voting together as a single class on an as converted to Common Stock basis (the time of such closing or the date and time specified or the time of the event specified in such vote or written consent is referred to herein as the "***Automatic Conversion Time***"), then (1) with respect to the foregoing clause (A) all outstanding shares of the Series A Preferred shall automatically be converted into Common Stock, at the then effective Series A Preferred Conversion Rate, (2) with respect to the foregoing clause (B) all outstanding shares of the Series B Preferred shall automatically be converted into Common Stock at the then effective Series B Preferred Conversion Rate, (3) with respect to the foregoing clause (C) all outstanding shares of the Preferred Stock shall automatically be converted into Common Stock at the then effective Conversion Rate and (4) such shares may not be reissued by the Corporation. Upon such automatic conversion, any declared but unpaid dividends on the Preferred Stock shall be paid in accordance with the provisions of Section 4(d).

(ii) The Corporation shall send to all holders of record of shares of the Preferred Stock written notice of the Automatic Conversion Time and the place designated for mandatory conversion of all such shares of the Series A Preferred and/or Series B Preferred pursuant to this Section 4(m). The Corporation need not send such notice in advance of the occurrence of the Automatic Conversion Time. Upon receipt of such notice, each holder of shares of the Preferred Stock converted pursuant to Section 4(m)(i) shall surrender his, her or its certificate or certificates for all such shares (or, if such holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate) to the Corporation at the place designated in such notice, and shall thereafter receive certificates for the number of shares of the Common Stock to which such holder is entitled pursuant to this Section 4(m). At the Automatic Conversion Time, all outstanding shares of the Preferred Stock converted pursuant to Section 4(m)(i) shall be deemed to have been converted into Common Stock, which shall be deemed to be outstanding of record, and all rights with respect to the Preferred Stock so converted, including the rights, if any, to receive notices and vote (other than as a holder of the Common Stock), will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates (or lost certificate affidavit and agreement) therefor, to receive the items provided for in the last sentence of this clause (ii). If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. As soon as practicable after the Automatic Conversion Time and the surrender of the certificate or certificates (or lost certificate affidavit and agreement) for the Preferred Stock converted pursuant to Section 4(m)(i), the Corporation shall issue and deliver to such holder, or to his, her or its nominees, a certificate or certificates for the number of Common Stock issuable on such conversion in accordance with the provisions hereof, together with cash in lieu of any fraction of a Common Stock otherwise issuable upon such conversion and the payment of any dividends declared and unpaid on the shares of the Preferred Stock converted.

(iii) All shares of the Preferred Stock converted pursuant to Section 4(m)(i) shall, from and after the Automatic Conversion Time, no longer be deemed to be outstanding and, notwithstanding the failure of the holder or holders thereof to surrender the certificates for such shares on

or prior to such time, all rights with respect to such shares shall immediately cease and terminate at the Automatic Conversion Time, except only the right of the holders thereof to receive Common Stock in exchange therefor and to receive payment on account of any fractional Common Stock and of any dividends declared but unpaid thereon. Such converted shares of the Preferred Stock shall be retired and cancelled and may not be reissued as shares of such series, and the Corporation may thereafter take such appropriate action (without the need for shareholder action) as may be necessary to reduce the authorized number of shares of the Series A Preferred, Series B Preferred and the Preferred Stock in the aggregate accordingly.

(n) **Restriction on Conversion**. Notwithstanding anything to the contrary in this Section 4, except in connection with the Corporation's first firm commitment underwritten public offering of its Common Stock registered under the Securities Act, no holder of shares of the Preferred Stock shall be permitted to convert any share of the Preferred Stock into shares of the Common Stock at any time that Aggregate Distributions have been made on account of such share of Preferred Stock in an amount equal to the applicable Cap Amount for such share of Preferred Stock; provided, however, that the foregoing limitation shall in no way limit or affect any voting or other rights of the Preferred Stock which are determined or calculated on an as-converted basis.

(o) **Fractional Shares**. No fractional shares of the Common Stock shall be issued upon conversion of the Preferred Stock. All Common Stock (including fractions thereof) issuable upon conversion of more than one share of the Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of any fractional share, the Corporation shall, in lieu of issuing any fractional share, pay cash equal to the product of such fraction multiplied by the Common Stock's fair market value (as determined in good faith by the Board) on the date of conversion.

(p) **Reservation of Stock Issuable Upon Conversion**. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of the Common Stock, solely for the purpose of effecting the conversion of the shares of the Preferred Stock, such number of its shares of the Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Preferred Stock. If at any time the number of authorized but unissued Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its legal counsel, be necessary to increase its authorized but unissued Common Stock to such number of Common Stock as shall be sufficient for such purpose.

(q) **Payment of Taxes**. The Corporation will pay all taxes (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issuance or delivery of Common Stock upon conversion of shares of the Preferred Stock, excluding any tax or other charge imposed in connection with any transfer involved in the issuance and delivery of Common Stock in a name other than that in which the shares of the Preferred Stock so converted were registered.

5. Redemption.

(a) Unless prohibited by Delaware law governing distributions to stockholders, the Corporation shall be obligated to redeem the Preferred Stock as follows:

(i) The holders of a majority of the then outstanding shares of the Preferred Stock, voting together as a single class on an as converted to Common Stock basis, may require the Corporation, to the extent it may lawfully do so under the DGCL to redeem all (but not less than all)



of the issued and outstanding shares of Preferred Stock by providing written notice (a "***Redemption Request***") to the Corporation at any time following the third anniversary of the Series B Original Issue Date. The Corporation shall effect such redemption in three (3) annual installments with the first to occur on the date that is 90 days after the date that the Corporation receives notice of such vote (or, in the case of any redemption where the Per Share Redemption Price is to be based upon the Fair Market Value, thirty (30) days after final determination of the Fair Market Value, if later) (each a "***Redemption Date***") by paying in cash in exchange for the shares of the Preferred Stock to be redeemed on such Redemption Date an amount per share (the "***Per Share Redemption Price***")equal to (x) in the case of any redemption pursuant to a Redemption Request (as defined below) delivered prior to the date which is 90 days prior to the fifth anniversary of the Series B Original Issue Date (the "***FMV Date***") the Original Issue Price of such share of Preferred Stock, plus any dividends accrued but unpaid thereon or (y) in all other cases, the Fair Market Value of such share of Preferred Stock (as defined below).

(ii) Within thirty (30) days after being required to redeem the Preferred Stock by reason of the vote contemplated by the foregoing clause (i), the Corporation shall send a notice (each a "***Redemption Notice***")to all holders of the Preferred Stock to be redeemed setting forth the place at which such holders may obtain payment of the Per Share Redemption Price for each share of Preferred Stock upon surrender of their share certificates, and, in the case of a Redemption Request delivered on or after the FMV Date, the initial determination of the Fair Market Value of each series of Preferred Stock of the Board. The number of shares of the each series of Preferred Stock that the Corporation shall be required to redeem on any one Redemption Date shall be equal to the amount determined by dividing (A) the aggregate number of shares of the each Series of Preferred Stock outstanding immediately prior to the Redemption Date by (B) the number of remaining Redemption Dates (including the Redemption Date to which such calculation applies). Shares subject to redemption pursuant to this Section 5(a) shall be redeemed from each holder of shares of each series of Preferred Stock on a pro rata basis, based on the total number of shares of such series of Preferred Stock then outstanding. If the Corporation does not have sufficient funds available to legally redeem all shares to be redeemed on such Redemption Date (including, if applicable, those to be redeemed at the option of the Corporation), then it shall redeem such shares pro rata (based on the portion of the aggregate Redemption Price payable to them) to the extent possible and shall redeem the remaining shares to be redeemed as soon as sufficient funds are legally available.

(iii) "***Fair Market Value***" shall mean, with respect to any share of Preferred Stock, the amount which would be received on account of such share of Preferred Stock pursuant to the terms hereof on account of a Deemed Liquidation Event occurring on the date on which the Redemption Request was delivered which resulted in a sale of the entire Corporation on a going concern basis pursuant to a transaction negotiated by unrelated parties with relatively equal bargaining power and leverage following a commercially reasonable sales process. The Board of Directors of the Corporation shall initially determine the Fair Market Value and provide notice of its determination of the Fair Market Value in the Redemption Notice. If, within ten (10) days after receipt of the Redemption Request, the holders of a majority of the shares of the Series A Preferred then outstanding shall notify the Board in writing of their objection to such determination, a determination of the Fair Market Value shall be made by a nationally recognized independent investment banking firm acceptable to the Corporation and the holders of at least a majority of the shares of the Preferred Stock then outstanding (voting together as a single class on an as converted to Common Stock basis). If the parties are unable to agree on such an investment banking firm, one shall be chosen by two nationally recognized independent investment banking firms, one of which shall be designated by the Corporation and one of which shall be designated by the holders of at least a majority of the shares of the Preferred Stock then outstanding (voting together as a single class on an as converted to Common Stock basis). The Corporation and the holders of the shares of the Preferred Stock shall each bear one-half of the cost of the fees and expenses borne by the parties in such determination of Fair Market Value.

(b) On or after the applicable Redemption Date, each holder of shares of the Preferred Stock to be redeemed shall surrender such holder's certificates representing such shares to the Corporation in the manner and at the place designated in the Redemption Notice, as applicable, and thereupon the applicable Per Share Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be canceled. In the event less than all the shares represented by such certificates are redeemed, a new certificate shall be issued representing the unredeemed shares. From and after the applicable Redemption Date, unless there shall have been a default in payment of the applicable Per Share Redemption Price or the Corporation is unable to pay the applicable Per Share Redemption Price due to not having sufficient legally available funds, all rights of the holder of such shares as holder of the Preferred Stock being redeemed (except the right to receive the applicable Per Share Redemption Price without interest upon surrender of their certificates), shall cease and terminate with respect to such shares; *provided* that in the event that shares of the Preferred Stock being redeemed are not redeemed due to a default in payment by the Corporation or because the Corporation does not have sufficient legally available funds, such shares of the Preferred Stock being redeemed shall remain outstanding and shall be entitled to all of the rights and preferences provided herein.

(c) The Corporation's obligation to redeem any shares of Preferred Stock pursuant to this Section 5 shall terminate upon the earlier of (i) the closing of the Qualified Initial Public Offering or (ii) the closing of a Deemed Liquidation Event as defined pursuant to Section 3(e)(i)(A)-(B).

6. Redeemed or Otherwise Acquired Shares. Any shares of Preferred Stock that are converted into Common Stock, redeemed or otherwise acquired by the Corporation or any of its subsidiaries shall be automatically and immediately cancelled and retired and shall not be reissued, sold or transferred. Neither the Corporation nor any of its subsidiaries may exercise any voting or other rights granted to the holders of Series A Preferred and/or Series B Preferred, as applicable, following redemption of such series of Preferred Stock.

7. Waiver. Any of the rights, powers, preferences and other terms of the Preferred Stock set forth herein may be waived on behalf of all holders of Preferred Stock by the affirmative written consent or vote of a majority of the shares of Preferred Stock then outstanding (voting together as a single class on an as converted to Common Stock basis); provided, however that notwithstanding the foregoing, any waiver of the rights, powers and preferences of (i) the Series A Preferred set forth in Section 4(m)(i)(A) and Section 5(a) shall require the affirmative written consent or vote of a majority of the shares of the Series A Preferred then outstanding or (ii) the Series B Preferred set forth in Section 4(m)(i)(B) and Section 5(b) shall require the affirmative written consent or vote of a majority of the shares of Series B Preferred then outstanding.

8. Notices. Any notice required to be delivered to or by the holders of Preferred Stock shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) (1) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with verification of receipt. All notices shall be addressed to each holder of record at the address of such holder appearing on the books of the Corporation and to the Corporation at its chief executive office.

9. Payment of Taxes. The Corporation will pay all taxes (other than taxes based upon income) and other governmental charges mat may be imposed with respect to the issuance or delivery of Common Stock upon conversion of shares of the Series A Preferred, excluding any tax or



other charge imposed in connection with any transfer involved in the issue and delivery of Common Stock in a name other than that in which the shares of the Series A Preferred so converted were registered.

10. No Dilution or Impairment. Without the consent of the holders a majority of the then outstanding Series A Preferred as required under Section 2(b), the Corporation shall not amend its Certificate of Incorporation or participate in any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or take any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but shall at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series A Preferred against dilution or other impairment.

B. COMMON STOCK

1. General. All preferences, voting powers, relative, participating, optional or other special rights and privileges, and qualifications, limitations, or restrictions of the Common Stock are expressly made subject to and subordinate to those that may be fixed with respect to any shares of the Preferred Stock.

2. Voting. Except as otherwise required by law or the Corporation's Certificate of Incorporation, each holder of shares of the Common Stock shall have one vote in respect of each share of stock held by such holder of record on the books of the Corporation for the election of directors and all matters submitted to a vote of shareholders of the Corporation. Except as otherwise provided in the Corporation's Certificate of Incorporation or Bylaws or as required by the Delaware General Corporation Law (the "***DGCL***"), the Preferred Stock shall vote together with the Common Stock and all other classes and series of stock of the Corporation as a single class on all actions to be taken by the shareholders of the Corporation including, without limitation, actions amending the Certificate of Incorporation of the Corporation. There shall be no cumulative voting.

FIFTH: Subject to any additional vote required by this Certificate of Incorporation or Bylaws, in furtherance and not in limitation of the powers conferred by statute, the Board is expressly authorized to make, repeal, alter, amend and rescind any or all of the Bylaws of the Corporation.

SIXTH: Subject to the DGCL and Article Fourth, Section A.2 of this Certificate of Incorporation, the number of directors of the Corporation shall be determined in the manner set forth in the Bylaws of the Corporation.

SEVENTH: Subject to the DGCL, elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

EIGHTH: Subject to the DGCL, meetings of stockholders may be held within or without the State of Delaware, as the Bylaws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

NINTH: To the fullest extent permitted by law, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL or any other law of the State of Delaware is amended after approval by the shareholders of this Article Ninth to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL as so amended. Any repeal or modification of the foregoing



provisions of this Article Ninth by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director occurring prior to, such repeal or modification.

TENTH: The Corporation renounces any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, any Excluded Opportunity, except to the extent that the failure to offer such Excluded Opportunity constitutes knowing and willful participation by a director in a breach of a binding contractual obligation between the Corporation and such director or any entity entitled to designate or elect such director. An "***Excluded Opportunity***" is any matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of, (i) any director of the Corporation who is not an employee of the Corporation or any of its subsidiaries, or (ii) any holder of Preferred Stock or any partner, member, director, stockholder, employee or agent of any such holder, other than someone who is an employee of the Corporation or any of its subsidiaries (collectively, "***Covered Persons***") unless such matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the possession of, a Covered Person expressly and solely in such Covered Person's capacity as a director of the Corporation.

ELEVENTH: The name and mailing address of the incorporator is:

Steven Beauchamp
3850 N. Wilke Road
Arlington Heights, Illinois 60004

[*Remainder of page intentionally left blank*]



THE UNDERSIGNED, being the incorporator named above, for the purpose of forming a corporation pursuant to the DGCL, does make this certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 6th day of November, 2013.

/s/Steven Beauchamp
Steven Beauchamp
Incorporator

# BYLAWS OF
# PAYLOCITY HOLDING CORPORATION

## ARTICLE I

## OFFICES

The Corporation shall continuously maintain in the State of Delaware a registered office and a registered agent whose office is identical with such registered office, and may have other offices within or without the state.

## ARTICLE II

## MEETINGS OF SHAREHOLDERS

2.1 Place and Time of Meetings. Meetings of shareholders shall be held at such place, either within or without the State of Delaware, and at such time as may be provided in the notice of the meeting and approved by the President or the Board of Directors. The Board of Directors may, in its sole discretion, determine that an annual or special meeting shall not be held at any place, but shall be held solely by means of remote communication, subject to such guidelines and procedures as the Board of Directors may adopt, as permitted by applicable law.

2.2 Organization and Order of Business. The Chief Executive Officer shall serve as chairman at all meetings of the shareholders. In the absence of the foregoing officer or if he declines to serve, a majority of the shares entitled to vote at a meeting may appoint any person entitled to vote at the meeting to act as chairman. The Secretary or, in his absence, an Assistant Secretary shall act as secretary at all meetings of the shareholders. In the event that neither the Secretary nor an Assistant Secretary is present, the chairman of the meeting may appoint any person to act as secretary of the meeting. The Chief Executive Officer shall have the authority to make such rules and regulations, to establish such procedures and to take such steps as he may deem necessary or desirable for the proper conduct of each meeting of the shareholders, including, without limitation, the authority to make the agenda and to establish procedures for (i) dismissing of business not properly presented, (ii) maintaining of order and safety, (iii) placing limitations on the time allotted to questions or comments on the affairs of the Corporation, (iv) placing restrictions on attendance at a meeting by persons or classes of persons who are not shareholders or their proxies, (v) restricting entry to a meeting after the time prescribed for the commencement thereof and (vi) commencing, conducting and closing voting on any matter.

2.3 Annual Meeting. The annual meeting of shareholders shall be held on such date as shall be set by the Board of Directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If such date is a legal holiday, then the annual meeting of shareholders shall be held on the next succeeding business day.

2.4 Special Meetings. Special meetings of the shareholders may be called only by the Chief Executive Officer, the Board of Directors or by the holders of not less than one-fifth of all the outstanding shares of the Corporation. Notwithstanding the foregoing, the holders of a majority of the then outstanding shares of the Corporation's Series A Convertible Preferred Stock shall be entitled to call a special meeting of the shareholders for the sole purpose of electing a Series A Director (as defined in the Corporation's Certificate of Incorporation). Only business within the purpose or purposes described in the notice for a special meeting of shareholders may be conducted at the meeting.



2.5 Record Dates. The Board of Directors may fix, in advance, a record date to make a determination of shareholders for any purpose, such date to be not more than 60 days or, in the case of (i) a plan of merger or share exchange, (ii) the sale, lease, exchange or other disposition of all or substantially all the property of the Corporation otherwise than in the usual and regular course of business or (iii) the dissolution of the Corporation, not more than 20 days before the meeting or action requiring a determination of shareholders. If no such record date is set the record date shall be the close of business on the date on which the first notice is given.

2.6 Notice of Meetings. Written notice stating the place, day and hour of each meeting of shareholders, the means of remote communications, if any, by which shareholders and proxyholders may be deemed to be present in person and vote at such meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than 10 nor more than 60 days before the date of the meeting (except when a different time is required in these Bylaws or by law) either personally or by e-mail, mail, telephone, telegraph, teletype, telecopy or other form of wire or wireless communication or by private courier to each shareholder of record entitled to vote at such meeting and to such nonvoting shareholders as may be required by law. If mailed, such notice shall be deemed to be effective when deposited in first class United States mail with postage thereon prepaid (or in the case of shareholders not resident in the United States, when deposited with an internationally recognized courier service) and addressed to the shareholder at his address as it appears on the share transfer books of the Corporation. If given in any other manner, such notice shall be deemed effective when (i) given personally or by telephone, (ii) sent by e-mail, telegraph, teletype, telecopy or other form of wire or wireless communication or (iii) given to a private courier to be delivered.

Notice of a shareholder's meeting to act on (i) an amendment of the Certificate of Incorporation, (ii) a plan of merger or share exchange, (iii) the sale, lease, exchange or other disposition of all or substantially all the property of the Corporation otherwise than in the usual and regular course of business or (iv) the dissolution of the Corporation, shall be given, in the manner provided above, not less than 20 nor more than 60 days before the date of the meeting. Any notice given pursuant to this section shall state that the purpose, or one of the purposes, of the meeting is to consider such action and shall be accompanied by (x) a copy of the proposed amendment, (y) a copy of the proposed plan of merger or share exchange or (z) a summary of the agreement pursuant to which the proposed transaction will be effected. If only a summary of the agreement is sent to the shareholders, the Corporation shall also send a copy of the agreement to any shareholder who requests it. If a meeting is adjourned to a different date, time or place, notice need not be given if the new date, time or place is announced at the meeting before adjournment. However, if a new record date for an adjourned meeting is fixed, notice of the adjourned meeting shall be given to shareholders as of the new record date unless a court provides otherwise.

2.7 Voting Lists. The officer or agent having charge of the transfer books for shares of the Corporation shall make, within 20 days after the record date for a meeting of shareholders or 10 days before such meeting, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of and the number of shares held by each shareholder, which list, for a period of 10 days prior to such meeting, shall be kept on file at the registered office of the Corporation and shall be subject to inspection by any shareholder, and to copying at the shareholder's expense, at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during

the whole time of the meeting. The original share ledger or transfer book, or a duplicate thereof kept in the State of Illinois, shall be *prima facie* evidence as to who are the shareholders entitled to examine such list or share ledger or transfer book or to vote at any meeting of shareholders.

2.8 Quorum and Voting Requirements. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that



matter. Unless otherwise required by law, a majority of the votes entitled to be cast on a matter by a voting group constitutes a quorum of that voting. group for action on that matter, but in no event shall a quorum consist of less than one third of the votes of the shares entitled so to vote. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or shall be set for that adjourned meeting. Except as set forth in the Certificate of Incorporation with regard to certain matters, if a quorum exists, action on a matter, other than the election of directors, by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action unless a greater number of affirmative votes is required by law. Directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Less than a quorum may adjourn a meeting.

2.9 Proxies. A shareholder may vote his shares in person or by proxy. A shareholder may appoint a proxy to vote or otherwise act for him by signing an appointment form, either personally or by his attorney-in-fact. An appointment of a proxy is effective when received by the Secretary or other officer or agent authorized to tabulate votes and is valid for eleven (11) months unless a longer period is expressly provided in the appointment form. An appointment of a proxy is revocable by the shareholder unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest. The death or incapacity of the shareholder appointing a proxy does not affect the right of the Corporation to accept the proxy's authority unless notice of the death or incapacity is received by the Secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. An irrevocable appointment is revoked when the interest with which it is coupled is extinguished. A transferee for value of shares subject to an irrevocable appointment may revoke the appointment if he did not know of its existence when he acquired the shares and the existence of the irrevocable appointment was not noted conspicuously on the certificate representing the shares. Subject to any legal limitations on the right of the Corporation to accept the vote or other action of a proxy and to any express limitation on, the proxy's authority appearing on the face of the appointment form, the Corporation is entitled to accept the proxy's vote or other action as that of the shareholder making the appointment. Any fiduciary who is entitled to vote any shares may vote such shares by proxy. If authorized by the Board of Directors in accordance with these Bylaws and applicable law, shareholders and proxyholders not physically present at a meeting of shareholders may, by means of remote communication, (i) participate in a meeting of shareholders and (ii) be deemed present in person and vote at a meeting of the shareholders, whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (x) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a shareholder or proxyholder, (y) the Corporation shall implement reasonable measures to provide such shareholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the shareholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (z) if any shareholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

2.10 Voting of Shares. Unless otherwise provided in the Certificate of Incorporation, each outstanding share, regardless of class, shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders.

2.11 Voting of Shares by Certain Holders. Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent, proxy or legal representative authorized to vote such shares under the law of incorporation of such corporation. The Corporation may treat the president or chief executive officer of such corporation, together with any other person or office holder indicated by such corporation, as a person or office holder authorized to vote such shares. Shares



standing in the name of a deceased person, a minor ward or a person under legal disability may be voted by his or her administrator, executor or court appointed guardian, either in person or by proxy without a transfer of such shares into the name of such administrator, executor or court appointed guardian. Shares standing in the name of a trustee may be voted by him, her or it, either in person or by proxy. Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his, her or its name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed. A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

2.12 Inspectors. At any meeting of shareholders, the chairman of the meeting may, or upon the request of any shareholder shall, appoint one or more persons as inspectors for such meeting. Such inspectors shall ascertain and report the number of shares represented at the meeting based upon their determination of the validity and effect of proxies, count all votes and report the results, and do such other acts as are proper to conduct the election and voting with impartiality and fairness to all the shareholders. Each report of an inspector shall be in writing and signed by him or her or by a majority of the inspectors if there be more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be *prima facie* evidence thereof.

2.13 Action Without Meeting. Any action required by law to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, selling forth the action so taken, shall be signed by (i) the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voting or (ii) all of the shareholders entitled to vote with respect to the subject matter thereof. If such consent is signed by less than all of the shareholders entitled to vote, then such consent shall become effective only if at least 5 days prior to the execution of the consent a notice in writing is delivered to all shareholders entitled to vote with respect to the subject mailer thereof and, after the effective date of the consent, prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be delivered in writing to the shareholders who have not consented in writing.

2.14 Voting by Ballot. Voting on any question or in any election may be *viva voce* unless the presiding officer shall order or any shareholder shall demand that voting be by ballot.

**ARTICLE III**

**DIRECTORS**

3.1 General Powers. The Corporation shall have a Board of Directors. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation managed under the direction of, its Board of Directors, subject to any limitation set forth in the Certificate of Incorporation.

3.2 Number and Term. The number of directors of the Corporation shall be five (5). This number may be changed from time to time by amendment to these Bylaws by the directors or the shareholders. Directors need not be residents of Delaware or shareholders of the Corporation. A decrease in number shall not shorten the term of any incumbent director. Each director shall hold office until his death, resignation or removal or until his successor is elected.



3.3 Election. Except as provided in Section 3.4 and in the Certificate of Incorporation, and in accordance with any Shareholders Agreement or Voting Agreement of the Corporation that may then be in effect, the directors (other than initial directors) shall be elected by the holders of the common shares and preferred shares at ‘each annual meeting of shareholders, and those persons who receive the greatest number of votes shall be deemed elected until all of the number of directors permitted by Section 3.2 shall have been elected. No individual shall be named or elected as a director without his prior consent.

3.4 Removal; Vacancies. Subject to the terms of the Certificate of Incorporation or any Shareholders Agreement or Voting Agreement of the Corporation then in effect, the shareholders may remove one or more directors with or without cause if the number of votes cast to remove him constitutes a majority of the votes entitled to be cast at an election of directors. A director may be removed by the shareholders only at a meeting called for the purpose of removing him and the meeting notice must state that the purpose, or one of the purposes of the meeting, is removal of the director. Subject to compliance with the terms of the Certificate of Incorporation or any Shareholders Agreement or Voting Agreement, a vacancy on the Board of Directors, including a vacancy resulting from the removal of a director or an increase in the number of directors, may be filled by the shareholders or the Board of Directors but the new director may not take office until the vacancy occurs.

3.5 Annual and Regular Meetings. An annual meeting of the Board of Directors, which shall be considered a regular meeting, shall be held immediately following each annual meeting of shareholders for the purpose of electing officers and carrying on such other business as may properly come before the meeting. The Board of Directors may also adopt a schedule of additional meetings which shall be considered regular meetings. Regular meetings shall be held at such times and at such places, within or without the State of Delaware, as the Chief Executive Officer or the Board of Directors shall designate from time to time. If no place is designated, regular meetings shall be held at the principal office of the Corporation.

3.6 Special Meetings. Special meetings of the Board of Directors may be called by the Chief Executive Officer or any member of the Board of Directors of the Corporation and shall be held at such times and at such places, within or without the State of Delaware, as the person or persons calling the meetings shall designate. If no such place is designated in the notice of a meeting, it shall be held at the principal office of the Corporation.

3.7 Notice of Meetings. No notice need be given of regular meetings of the Board of Directors. Notices of special meetings of the Board of Directors shall be given to each director in person or delivered to his residence or business address (or such other place as he may have directed in writing) not less than two days before the meeting by e-mail, mail, messenger, telecopy, telegraph or other means of written communication or by telephoning such notice to him. Any such notice shall set forth the time and place of the meeting and state the purpose for which it is called.

3.8 Waiver of Notice; Attendance at Meeting. A director may waive any notice required by law, the Certificate of Incorporation or these Bylaws before or after the date and time stated in the notice and such waiver shall be equivalent to the giving of such notice. Except as provided in the next paragraph of this section, the waiver shall be in writing, signed by the director entitled to the notice and filed with the minutes or corporate records. A director’s attendance at or participation in a meeting waives any required notice to him of the meeting unless the director, at the beginning of the meeting or promptly upon his arrival, objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

3.9 Quorum; Voting. Unless otherwise provided by the Certificate of Incorporation, (i) a majority of the number of directors fixed in these Bylaws shall constitute a quorum for the transaction of



business at a meeting of the Board of Directors and (ii) if a quorum is present when a vote is taken, the affirmative vote of a majority of the directors present is the act of the Board of Directors.

3.10 Telephonic Meetings. The Board of Directors may permit any or all directors to participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

3.11 Action Without Meeting. Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. The action shall be evidenced by one or more written consents stating the action taken, signed by each director either before or after the action is taken and included in the minutes or filed with the corporate records. Action taken under this section shall be effective when the last director signs the consent unless the consent specifies a different effective date in which event the action taken is effective as of the date specified therein provided the consent states the date of execution by each director.

3.12 Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be conclusively presumed to have assented to the action taken unless his or her dissent shall be entered in the minutes of the meeting or unless he or she shall file his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

**ARTICLE IV**

**COMMITTEES OF DIRECTORS**

4.1 Committees. The Board of Directors may create one or more committees and appoint members of the Board of Directors to serve on them. Unless otherwise provided in these Bylaws, each committee shall have two or more members who serve at the pleasure of the Board of Directors. The creation of a committee and appointment of members to it shall be approved by a majority of all of the directors in office when the action is taken.

4.2 Authority of Committees. To the extent specified by the Board of Directors, each committee may exercise the authority of the Board of Directors, except to the extent limited by law.

4.3 Committee Meetings; Miscellaneous. The provisions of these Bylaws which govern meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors shall apply to committees of directors and their members as well.

4.4 Action Without Meeting. Action required or permitted to be taken at a meeting of a committee of the Board of Directors may be taken without a meeting if the action is taken by all members of the committee. The action shall be evidenced by one or more written consents stating the action taken, signed by each director either before or after the action is taken and included in the minutes or filed with the corporate records. Action taken under this section shall be effective when the last member of the committee signs the consent unless the consent specifies a different effective date in which event the action taken is effective as of the date specified therein provided the consent states the date of execution by each member of the committee.



## ARTICLE V

## OFFICERS

5.1 Officers. The officers of the Corporation shall be a Chief Executive Officer, President, one or more Vice Presidents, a Treasurer and a Secretary, and, in the discretion of the Board of Directors, such other officers as may be deemed necessary or advisable to carry on the business of the Corporation. Any two or more offices may be held by the same person.

5.2 Election; Term. Officers shall be elected annually by the Board of Directors. Officers shall hold office, unless sooner removed, until the next annual meeting of the Board of Directors or until their successors are elected. Vacancies may be filled or new offices created and filled at any meeting of the Board of Directors. Any officer may resign at any time upon Written notice to the Board of Directors and such resignation shall be effective when notice is delivered unless the notice specifies a later effective date.

5.3 Removal of Officers. The Board of Directors may remove any officer when it deems it to be in the best interests of the Corporation.

5.4 Chief Executive Officer. The Chief Executive Officer shall preside as chairman at all meetings of shareholders, the Board of Directors and any committees of which he or she is a member and shall have any other powers and duties that are prescribed by the Board of Directors or these Bylaws.

5.5 President. The president shall be the Corporation’s general manager and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business, affairs and officers of the Corporation. He or she shall have the general powers and duties of management usually vested in the office of president of a corporation; shall have-any other powers and duties that are prescribed by the Board of Directors or these Bylaws; and shall be primarily responsible for carrying out all orders and resolutions of the Board of Directors.

5.6 Vice Presidents. In the absence of the president or in the event of his or her inability or refusal to act, the vice president (if elected by the Board of Directors or, in the event there be more than one vice president, the vice presidents in the order designated or, in the absence of any designation, then in the order of their election) shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. Any vice president shall perform such other duties as from time to time may be assigned to him or her by the president, the board of directors or these Bylaws.

5.7 Treasurer. The treasurer shall: (i) have charge and custody of and be responsible for all funds and securities of the Corporation; (ii) receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositaries as shall be approved by the Board of Directors; and (iii) in general perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him or her by the president, the Board of Directors or these Bylaws.

5.8 Secretary. The secretary shall: (i) keep the minutes of the meetings of the shareholders, the Board of Directors and committees of directors, in one or more books provided for that purpose; (ii) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (iii) be custodian of the corporate records and of the seal, if any, of the Corporation and, if the Corporation adopts a corporate seal, see that such seal is affixed to all certificates for shares prior to the issue thereof and to all documents, the execution of which on behalf of the Corporation under its seal is



duly authorized in accordance with the provisions of these Bylaws; (iv) keep a register of the post-office address of each shareholder which shall be furnished to the secretary by such shareholder; (v) have general charge of the stock transfer books of the Corporation; and (vi) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him or her by the president, the Board of Directors or these Bylaws.

5.9 Assistant Treasurers and Assistant Secretaries. The assistant treasurers shall, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The assistant treasurers and assistant secretaries, in general, shall perform such duties as shall be assigned to them by the treasurer or the secretary, respectively, or by the president, the Board of Directors or these Bylaws.

5.10 Compensation. Salaries of officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

## ARTICLE VI

## SHARES AND THEIR TRANSFER

6.1 Certificates for Shares. Shares of the Corporation's stock may be certificated or uncertificated. Certificates representing shares of the Corporation shall be in such form as may be determined by the Board of Directors. Such certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary. All certificates for shares shall be consecutively numbered or otherwise identified. The name of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate, a new one may be issued therefore upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

6.2 Transfers of Shares. Transfers of shares of the Corporation shall be made only on the books of the Corporation by the holder of record thereof or by his or her legal representative, who shall furnish proper evidence of authority to transfer, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation. Uncertificated shares shall be transferred upon the receipt of proper transfer instructions from the registered owner of such uncertificated shares.

## ARTICLE VII

## DIVIDENDS

The Board of Directors may from time to time declare, and the Corporation may pay, in the manner and upon the terms and conditions provided by law and the Certificate of Incorporation, dividends on its outstanding shares in cash, property or its own shares.



## ARTICLE VIII

## INDEMNIFICATION

8.1 Right to Indemnification. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by law as in effect on the date of adoption of these Bylaws or as it may thereafter be amended, any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "***proceeding***") by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person. The Corporation shall not be required to indemnify a person in connection with a proceeding initiated by such person, including a counterclaim or crossclaim, unless the proceeding was authorized by the Board of Directors. For purposes of this Article VIII: (i) any reference to "other enterprise" shall include employee benefit plans; (ii) any reference to "fines" shall include any excise taxes assessed against a person with respect to any employee benefit plan; (iii) any reference to "serving at the request of the Corporation" shall include any service as a director or officer of the Corporation that imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and (iv) a person who acted in good faith and in a manner he or she reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" for purposes of this Article VIII.

8.2 Prepayment of Expenses. The Corporation may pay or reimburse the reasonable expenses incurred by an officer or director in defending any proceeding in advance of its final disposition if the Corporation has received in advance an undertaking by the person receiving such payment or reimbursement to repay all amounts advanced if it should be ultimately determined that he or she is not entitled to be indemnified under this Article VIII or otherwise. The Corporation may require security for any such undertaking.

8.3 Claims. If a claim for indemnification or payment of expenses under this Article VIII is not paid in full within sixty days after a written claim therefor has been received by the Corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action, the Corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

8.4 Non-Exclusivity of Rights. The rights conferred on any person by this Article VIII shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, these Bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

8.5 Other Indemnification. The Corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director or officer of another corporation, partnership, joint venture or other enterprise shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture or other enterprise.

8.6 Amendment or Repeal. Any repeal or modification of the foregoing provisions of this Article VIII shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.



## ARTICLE IX

## MISCELLANEOUS PROVISIONS

9.1 Fiscal Year. The fiscal year of the Corporation shall be determined in the discretion of the Board of Directors.

9.2 Corporate Seal. The Board of Directors may provide a corporate seal, which shall be in the form of a circle and shall have inscribed thereon the name of the Corporation and the words, "Corporate Seal, Delaware."

9.3 Waiver of Notice. Whenever any notice is required to be given under the provisions of these Bylaws, the Certificate of Incorporation or the Delaware General Corporation Law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated

therein, .shall be deemed equivalent to the giving of notice.

9.4 Conflicts. In case there is any conflict between the terms of these Bylaws and any Shareholders Agreement or Voting Agreement of the Corporation then in effect, the terms of such Shareholders Agreement or Voting Agreement shall prevail.

9.5 Amendments. The power to make, alter, amend or repeal these Bylaws shall be vested in the Board of Directors unless reserved to the shareholders in the Certificate of Incorporation or by the Delaware General Corporation Law.

**Exhibit 4.1**

**PAYLOCITY CORPORATION**

**AMENDED AND RESTATED**
**INVESTOR RIGHTS AGREEMENT**

**THIS AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT** (the "***Agreement***") is entered into as of June 29, 2012 by and among Paylocity Corporation, an Illinois corporation (the "***Company***"), the Investors listed in EXHIBIT A to this Agreement (collectively, the "***Investors***" and each, without distinction among them, an "***Investor***"), Paylocity Management Holdings, LLC, a Delaware limited liability company ("***Holdings***"), and the Key Executives (as defined below).

**RECITALS**

**WHEREAS,** Holdings is the beneficial holder of an aggregate of 54,619,200 shares of the Company's Common Shares.

**WHEREAS,** each of the Key Executives own equity interests in Holdings.

**WHEREAS,** the Company, Holdings, the Investors and the Key Executives are parties to that certain Investor Rights Agreement dated as of May 14, 2008 (the "***Original Agreement***").

**WHEREAS,** pursuant to that certain Series B Preferred Share Purchase Agreement of even date herewith (the ***"Purchase Agreement"***), certain of the Investors are purchasing shares of the Company's Series B Preferred (as defined below).

**WHEREAS,** the parties hereto, pursuant to Section 6.5 of the Original Agreement, constitute the required parties to amend and restate the Original Agreement.

**WHEREAS**, in connection with the consummation of the sale and purchase of the Company's Series B Preferred, the parties desire to enter into this Agreement in order to grant registration, information rights and other rights to the Investors as set forth below.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree hereto as follows:

**SECTION 1: GENERAL**

**1.1 DEFINITIONS**. Capitalized terms not otherwise defined in this Agreement, shall have the following meanings:

**(a)** "***Adams Street***" means Adams Street 2006 Direct Fund, L.P., Adams Street 2007 Direct Fund, L.P., Adams Street 2008 Direct Fund, L.P., Adams Street 2009 Direct Fund, L.P., Adams Street 2010 Direct Fund, L.P., Adams Street 2011 Direct Fund, L.P., Adams Street 2012 Direct Fund, L.P. and Adams Street Co-Investment Fund II, L.P.

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**(b)** "***Affiliate***" means, with respect to any specified Person, any other Person who or which, directly or indirectly, controls, is controlled by, or is under common control with such specified Person, including without limitation any partner, officer, director, manager or employee of such Person and any venture capital fund now or hereafter existing that is controlled by or under common control with one or more general partners or managing members of, or shares the same management company with, such Person.

**(c)** "***Change in Control***" means (i) the sale of all or substantially all of the assets of the Company, or (ii) the consolidation or merger of the Company with or into any other corporation or other entity or person or any other corporate reorganization, in which the capital stock of the Company prior to such consolidation, merger or reorganization, represents less than fifty percent (50%) of the voting power of the surviving entity immediately after such consolidation, merger or reorganization, *provided, however*, that (A) any consolidation or merger effected exclusively to change the domicile of the Company, or (B) any transaction or series of transactions principally for *bona fide* equity financing purposes in which cash is received by the Company or indebtedness of the Company is cancelled or converted or a combination thereof shall not constitute a Change in Control.

**(d)** "***Charter***" means the Articles of Incorporation in the form contemplated by the Purchase Agreement, as it may be amended and restated from time to time as permitted thereby.

**(e)** "***Common Shares***" means the Company's Common Shares, par value $0.001 per share.

**(f)** "***Equity Securities***" means (i) any Common Shares, Preferred Shares or other security of the Company, (ii) any security convertible, with or without consideration, into any Common Shares, Preferred Shares or other security (including any option to purchase such a convertible security), (iii) any security carrying any warrant or right to subscribe to or purchase any Common Shares, Preferred Shares or other security, or (iv) any such warrant or right.

**(g)** "***Exchange Act***" means the Securities Exchange Act of 1934, as amended.

**(h)** "***Form S-3***" means such form under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

**(i)** "***Holdings LLC Agreement***" shall mean that certain Second Amended and Restated Limited Liability Company Operating Agreement for Holdings, dated on or about the date hereof, as it may be amended from time to time.

**(j)** "***Holder***" means any person of record owning Registrable Securities that have not been sold to the public or any assignee of record of such Registrable Securities in accordance with Section 2.9 hereof.

**(k)** "***Initial Offering***" means the Company's first firm commitment underwritten public offering of its Common Shares registered under the Securities Act.



**(l)** "***Junior Registrable Securities***" shall mean Registrable Securities which were owned by Holdings on the date hereof or acquired by any Key Holder after the date hereof.

**(m)** "***Key Executive***" shall mean each of Miller, Beauchamp and Haske, so long as he remains an employee, officer or director of, or consultant to, the Company.

**(n)** "***Key Executive Indirect Shares***" shall mean, with respect to any Key Executive at any time, the product of (x) the number of Key Holder Shares owned by Holdings multiplied by (y) Liquidation Applicable Percentage for such Key Executive and his Permitted Transferees (as defined pursuant to the Holdings LLC Agreement).

**(o)** "***Key Executive Shares***" shall mean, with respect to any Key Executive, the sum of (x) number of Key Holder Shares owned directly by such Key Executive plus (y) the Key Executive Indirect Shares.

**(p)** "***Key Holder***" shall mean any of Holdings and any transferee of Common Shares from Holdings, other than the Company and any Preferred Holder.

**(q)** "***Key Holder Shares***" means the Common Shares now owned or subsequently acquired by the Key Holders by gift, purchase, dividend, option exercise or any other means whether or not such securities are registered in a Key Holder's name or beneficially or legally owned by such Key Holder, including any interest of a spouse in any of the Key Holder Shares, whether that interest is asserted pursuant to marital property laws or otherwise.

**(r)** "***Liquidation Applicable Percentage***" shall have the meaning set forth in the Holdings LLC Agreement.

**(s)** "***Manager Equity Agreement***" shall mean those certain Manager Equity Agreements, dated as of May 14, 2008, between Holdings and each of the Senior Managers, Beauchamp and Haske.

**(t)** "***Qualified Initial Public Offering***" shall have the meaning set forth in the Charter.

**(u)** "***Person***" means any individual, corporation, partnership, trust, limited liability company, association or other entity.

**(v)** "***Preferred Director***" shall mean the representative of the holders of the Preferred Shares on the Company's Board of Directors as contemplated by the Charter.

**(w)** "***Preferred Shares***" shall mean the Series A Preferred and the Series B Preferred, taken together.

**(x)** "***Register***," "***Registered***," and "***Registration***" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.



**(y)** "***Registrable Securities***" means (a) Common Shares issued or issuable upon conversion of the Preferred Shares, (b) Common Shares acquired upon the exercise of any right of first refusal pursuant to the Right of First Refusal and Co-Sale Agreement (as defined in the Purchase Agreement), (c) Common Shares held by the Key Holders as of the date hereof or which may hereafter be acquired by the Key Holders from the Company, (d) Common Shares acquired upon the exercise of the rights of participation pursuant to Section 4 or issued or issuable upon the exercise, conversion or exchange of any Equity Securities so acquired, (e) any Shares issued (or issuable upon the conversion or exercise of any Warrant, right or other security which is issued) as a dividend or other distribution with respect to, or in exchange for or in replacement of, the securities described in the foregoing clauses (a), (b), (c), or (d), which, in the case of any of (a) - (e) above, are now owned or hereafter acquired by the Investors or the Key Holders and their permitted assigns. Notwithstanding the foregoing, Registrable Securities shall not include any securities sold by a person to the public either pursuant to a registration statement or Rule 144 or sold in a private transaction in which the transferor's rights under Section 2 of this Agreement are not assigned.

**(z)** "***Registrable Securities then outstanding***" means the shares of the Company's Common Shares that are Registrable Securities that are either: (a) then issued and outstanding or (b) issuable upon the exercise or conversion of exercisable or convertible securities including, without limitation, the Series A Preferred and Series B Preferred.

**(aa)** "***Registration Expenses***" shall mean all expenses incurred by the Company in complying with Sections 2.2, 2.3 and 2.4 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, reasonable fees and disbursements of a single special counsel for the Holders, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

**(bb)** "***Rule 144***" means Rule 144, as promulgated under the Securities Act, or any similar or analogous rule promulgated under the Securities Act.

**(cc)** "***SEC***" or "***Commission***" means the Securities and Exchange Commission.

**(dd)** "***Securities Act***" shall mean the Securities Act of 1933, as amended.

**(ee)** "***Selling Expenses***" shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities as well as any applicable stock transfer taxes.

**(ff)** "***Senior Managers***" shall mean each of Charles Cooper and Jenifer Page.

**(gg)** "***Series A Preferred***" means the Company's Series A Preferred Shares now owned or hereafter acquired by the Investors and their permitted assigns, taken together.

**(hh)** "***Series B Preferred***" means the Company's Series B Preferred Shares now owned or hereafter acquired by the Investors and their permitted assigns, taken together.



**(ii)** "***Special Registration Statement***" shall mean (i) a registration statement relating to any employee benefit plan, (ii) with respect to any corporate reorganization or transaction under Rule 145 of the Securities Act, any registration statements related to the resale of securities issued in such a transaction, or (iii) a registration related to stock issued upon conversion of debt securities.

**(jj)** "***Subsidiary***" shall mean, with respect to any entity, any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are owned directly or indirectly by such entity or any Subsidiary of such entity or by such entity and one or more Subsidiaries of such entity.

**SECTION 2: RESTRICTIONS ON TRANSFER; REGISTRATION.**

**2.1 RESTRICTIONS ON TRANSFER**.

**(a)** Each party hereto agrees not to make any disposition of all or any portion of the Registrable Securities unless and until:

**(i)** There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

**(ii)** (A) The transferee has agreed in writing to be bound by the terms of this Agreement, (B) such party shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (C) if reasonably requested by the Company, such party shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Securities Act and applicable state and foreign securities law. Notwithstanding the foregoing, no such opinion of counsel shall be required in connection with any transfer of shares of Registrable Securities made in compliance with Rule 144. After its Initial Offering, the Company will not require the transferee to be bound by the terms of this Agreement.

Notwithstanding the provisions of clauses (i) and (ii) above, no such registration statement or opinion of counsel shall be necessary for a transfer by a party hereto that is (A) a partnership transferring to its partners or former partners in accordance with partnership interests, (B) a corporation transferring to a wholly-owned subsidiary or a parent corporation that owns all of the capital stock of such corporation, (C) a limited liability company transferring to its members or former members in accordance with their interest in the limited liability company, or (D) an individual transferring to such individual's family member or trust for the benefit of such individual; provided that in each case the transferee will be subject to the terms of this Agreement to the same extent as if he were an original party hereto.

**(b)** Each certificate representing Registrable Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):



THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED PURSUANT TO THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY PORTION HEREOF OR INTEREST HEREIN MAY BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF UNLESS THE SAME IS REGISTERED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAW, OR UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE AND THE COMPANY SHALL HAVE RECEIVED, AT THE EXPENSE OF THE HOLDER HEREOF, EVIDENCE OF SUCH EXEMPTION REASONABLY SATISFACTORY TO THE COMPANY (WHICH MAY INCLUDE, AMONG OTHER THINGS, AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY).

THE SALE, PLEDGE, HYPOTHECATION OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN INVESTOR RIGHTS AGREEMENT BY AND BETWEEN THE SHAREHOLDER AND THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

**(c)** The Company shall be obligated to reissue promptly unlegended certificates at the request of any holder thereof if such holder shall have obtained an opinion of counsel (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend.

**(d)** Any legend endorsed on an instrument pursuant to applicable state securities laws and the stop-transfer instructions with respect to such securities shall be removed upon receipt by the Company of an order of the appropriate blue sky authority authorizing such removal.

**(e)** The restrictions set forth in this Section 2.1 shall terminate with respect to any securities at such time as such securities cease to be Registrable Securities.

**2.2 DEMAND REGISTRATION**.

**(a)** Subject to the conditions of this Section 2.2, if the Company shall receive a written request from the holders of not less than fifty percent (50%) of the Preferred Shares, on an as converted to Common Shares basis (the "***Initiating Holders***"), that the Company file a registration statement under the Securities Act covering the registration of all or a portion of the Registrable Securities held by such Initiating Holders, then the Company shall, within thirty (30) days of the receipt thereof, give written notice of such request to all of the Holders, and subject to the limitations of this Section 2.2, the Company shall use its commercially reasonable efforts to effect the registration under the Securities Act of all Registrable Securities that the Holders request to be registered.



**(b)** If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to Section 2.2(a) or any request pursuant to Section 2.4 and the Company shall include such information in the written notice referred to in Section 2.2(a) or Section 2.4(a), as applicable. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by at least seventy percent (70%) in interest of the Initiating Holders (which underwriter or underwriters shall be reasonably acceptable to the Company). Notwithstanding any other provision of this Section 2.2 or Section 2.4, if the managing underwriter or underwriters determine that the proposed number of securities to be underwritten would adversely affect the marketing of such securities, then the Company shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares that may be included in such underwriting shall be allocated, first, to the Holders of Registrable Securities (excluding for these purposes, any Junior Registrable Securities) on a *pro rata* basis based on the number of Registrable Securities (excluding any Junior Registrable Securities) held by such Holders; and second to the Holders of Junior Registrable Securities on a on a *pro rata* basis based on the number of Junior Registrable Securities held by such Holders; *provided*, *however*, that the number of shares of Registrable Securities to be included in such underwriting and registration shall not be reduced unless all other securities of the Company are first entirely excluded from such underwriting and registration. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

**(c)** The Company shall not be required to effect a registration pursuant to this Section 2.2:

**(i)** prior to one hundred eighty (180) days following the effective date of the registration statement pertaining to the Initial Offering;

**(ii)** after the Company has effected two (2) registrations pursuant to this Section 2.2, and such registrations have been declared or ordered effective;

**(iii)** if the aggregate offering price, net of underwriting expenses and discounts, is less than ten million dollars ($10,000,000);

**(iv)** in any particular jurisdiction in which the Company would be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subparagraph, (B) subject itself to taxation in any such jurisdiction or (C) execute a general consent to service of process in effecting such registration, unless the Company is already subject to service in such jurisdiction, and, in each case, except as may be required under the Securities Act;

**(v)** during the period starting with the date of filing of, and ending on the date ninety (90) days following the effective date of a non-Initial Offering registration



statement pertaining to a public offering, other than pursuant to a Special Registration Statement; provided that the Company makes a reasonable good faith effort to effect such registration as soon thereafter as practicable;

**(vi)** if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 2.2, a certificate signed by the Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company, it would be detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred (120) days after receipt of the request of the Initiating Holders; *provided*, *however*, that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period.

**(d)** A registration statement shall not be counted until such time as such registration statement has been declared effective by the SEC (unless the Initiating Holders withdraw their request for such registration (other than as a result of information concerning the business or financial condition of the Company which is made known to the Investors after the date on which such registration was requested) and elect not to pay the registration expenses therefor pursuant to Section 2.5). A registration statement shall not be counted if, as a result of an exercise of the underwriter's cut-back provisions, fewer than 50% of the total number of Registrable Securities that the Holders have requested to be included in such registration statement are actually included.

**2.3 PIGGYBACK REGISTRATIONS**. The Company shall notify all Holders of Registrable Securities in writing at least thirty (30) days prior to the filing of any registration statement under the Securities Act covering the sale of the Company's securities to the public, whether for its own account or for the account of other security holders or both (but excluding Special Registration Statements) and will afford each such Holder an opportunity to include in such registration statement all or part of such Registrable Securities held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall, within twenty (20) days after such Holder receives the above-described notice from the Company, so notify the Company in writing, and the Company will use its commercially reasonable efforts to cause the Registrable Securities so requested by such Holder to be included in such registration statement. Such notice shall state the intended method of disposition of the Registrable Securities by such Holder. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company under this Section 2.3, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth in this Section 2.3.

**(a) Underwriting**. If the registration statement under which the Company gives notice under this Section 2.3 is for an underwritten offering, the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder to be included in a registration pursuant to this Section 2.3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their

Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. Notwithstanding any other provision of this Agreement, if the managing underwriter or underwriters determine in good faith that the proposed number of securities to be underwritten would adversely affect the marketing of such securities, then the number of shares that may be included in the underwriting shall be allocated, first, to the Company; second, to the Holders of Registrable Securities (excluding for these purposes, any Junior Registrable Securities) on a *pro rata* basis based on the number of Registrable Securities (excluding any Junior Registrable Securities) held by such Holders; and third to the Holders of Junior Registrable Securities on a on a *pro rata* basis based on the number of Junior Registrable Securities held by such Holders. No such reduction shall reduce the amount of Registrable Securities which are not Junior Registrable Securities included in the registration below thirty percent (30%) of the total amount of securities included in such registration, unless such offering is the Initial Offering, in which case the selling Holders may be completely excluded if the underwriters make the determination described above and no other shareholder's securities are included. In no event will shares of any other selling shareholder be included in such registration that would reduce the number of shares which may be included by the Holders without the written consent of the Holders of not less than a majority of the Registrable Securities proposed to be sold in the offering. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the managing underwriter, delivered at least ten (10) business days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration. For any Holder which is a partnership or corporation, the partners, retired partners, members, retired members and shareholders of such Holder, or the estates and family members of any such partners, retired partners, members, retired members and shareholders and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "Holder," and any *pro rata* reduction with respect to such "Holder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "Holder," as defined in this sentence.

**(b) Right to Terminate Registration**. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.3 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with Section 2.5 hereof.

**2.4 FORM S-3 REGISTRATION**. If at any time the Company shall receive from any Holder or Holders of not less than thirty percent (30%) of the Registrable Securities (the "***S-3 Initiating Holders***") a written request or requests that the Company file a registration on Form S-3 or any similar short-form registration statement and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company will:

**(a)** promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders of Registrable Securities; and



**(b)** as soon as reasonably practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within fifteen (15) days after receipt of such written notice from the Company; *provided, however*, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 2.4 if any of the following apply:

**(i)** if Form S-3 is not available for use by the Company with respect to such offering by the Holders; or

**(ii)** if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than one million dollars ($1,000,000); or

**(iii)** if the Company shall furnish to the Holders a certificate signed by the Chairman of the Board of Directors of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such Form S-3 registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than one hundred twenty (120) days after receipt of the request of the Holder or Holders under this Section 2.4; *provided, however*, that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period and may not be exercised if the right to delay a request for registration pursuant to Section 2.2(c)(v) has been exercised by the Company at any time within the prior twelve (12) month period;

**(iv)** if the Company would be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subparagraph, (B) subject itself to taxation in any such jurisdiction or (C) execute a general consent to service of process in effecting such registration, unless the Company is already subject to service in such jurisdiction, and, in each case except as may be required under the Securities Act; or

**(v)** if less than six (6) months have expired since the effectiveness of the immediately preceding registration requested pursuant to this Section 2.4.

**(c)** If the Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 2.4 and the Company shall include such information in the written notice referred to in Section 2.4(a). The provisions of Section 2.2(b) shall be applicable to such request (with the substitution of Section 2.4 for references to Section 2.2); *provided however*, that if the managing underwriter or underwriters determine that the proposed number of securities to be underwritten would adversely affect the marketing of such securities, then the Company shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares that may be included in such



underwriting shall be allocated in the same manner as provided pursuant to Section 2.2(b); *provided, further*, that the number of shares of Registrable Securities to be included in such underwriting and registration shall not be reduced unless all securities of the Company are first entirely excluded from such underwriting and registration.

**(d)** Subject to the foregoing, the Company shall file a registration statement on Form S-3 to register the Registrable Securities so requested to be registered as soon as reasonably practicable after receipt of the requests of the Holders. Registrations effected pursuant to this Section 2.4 shall not be counted as demands for registration or registrations effected pursuant to Section 2.2.

**2.5 EXPENSES OF REGISTRATION**. Except as specifically provided herein, all Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to Sections 2.2, 2.3 or 2.4 hereof shall be borne by the Company. The Company shall pay the reasonable fees and expenses, not to exceed $25,000 of one special counsel to represent all the participating Holders of Registrable Securities. All Selling Expenses incurred in connection with any registrations hereunder, shall be borne by the Holders of the securities so registered *pro rata* on the basis of the number of shares so registered. The Company shall not, however, be required to pay for expenses of any registration proceeding begun pursuant to Section 2.2 or 2.4, the request of which has been subsequently withdrawn by the Initiating Holders or the requesting Holder or Holders under Section 2.4, as the case may be, unless (a) the withdrawal is based upon material adverse information concerning the Company of which the Initiating Holders were not aware at the time of such request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse information or (b) the Holders of at least seventy percent (70%) of Registrable Securities then outstanding agree to forfeit their right to one requested registration pursuant to Section 2.2, in which event such right shall be forfeited by all Holders. If the Holders are required to pay the Registration Expenses, such expenses shall be borne by the Holders of securities (including Registrable Securities) requesting such registration in proportion to the number of shares for which registration was requested. If the Company is required to pay the Registration Expenses of a withdrawn offering pursuant to clause (a) above, then the Holders shall not forfeit their rights pursuant to Section 2.2 or to a demand registration.

**2.6 OBLIGATIONS OF THE COMPANY**. Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

**(a)** Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all reasonable efforts to cause such registration statement to become effective, and keep such registration statement effective until the earlier of one-hundred twenty (120) days after the effective date of such registration statement or until the Holder or Holders have completed the distribution or sale of such Registrable Securities; provided, however, that (i) such one hundred twenty (120) day period shall be extended for a period of time equal to the period the Holder refrains, at the request of an underwriter of Common Shares (or other securities) of the Company, from selling any securities included in such registration, and (ii) in the case of any registration of Registrable Securities on Form S-3 that are intended to be offered on a continuous or delayed basis, subject to compliance with applicable SEC rules,



such one hundred twenty (120) day period shall be extended up to sixty (60) days, if necessary, to keep the registration statement effective until all such Registrable Securities are sold.

**(b)** Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement for the period set forth in subsection (a) above.

**(c)** Furnish to each seller of Registrable Securities and to each underwriter such number of copies of the registration statement and the prospectus included therein, including each preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities covered by such registration statement.

**(d)** Use commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as the sellers of Registrable Securities, or in the case of an underwritten public offering, the managing underwriter, reasonably shall request; *provided*, *however*, that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business in such jurisdiction, subject itself to taxation in such jurisdiction or to file a general consent to service of process in any such states or jurisdictions unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act.

**(e)** In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriters) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

**(f)** Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing. The Company will use commercially reasonable efforts to amend or supplement such prospectus in order to cause such prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

**(g)** Furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (ii) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by



independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

**(h)** Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed; *provided that* in the case of a registration effected pursuant to Section 2.2 above, which registration constitutes the Initial Offering, the Registrable Securities shall be listed on a national securities exchange.

**(i)** Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

**(j)** Make available to each Holder of Registrable Securities covered by such registration statement, any underwriter participating in any distribution pursuant to such registration statement, and any attorney, accountant or other agent retained by such Holder or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such Holder, underwriter, attorney, accountant or agent in connection with such registration statement.

**(k)** Advise each Holder of Registrable Securities covered by such registration statement, promptly after the Company shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for such purpose and promptly use all reasonable efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued.

**(l)** Cooperate with the Holders of Registrable Securities covered by such registration statement and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing such Registrable Securities to be sold, such certificates to be in such denominations and registered in such names as such Holders or the managing underwriters may request at least two (2) business days prior to any sale of Registrable Securities.

**(m)** Permit any Holder which Holder, in the sole and exclusive judgment of the Company's Board of Directors would be deemed to be a controlling Person of the Company, to participate in good faith in the preparation of such registration or comparable statement and to require the insertion therein of material, furnished to the Company in writing, which in the reasonable judgment of such Holder should be included, subject to review by the Company and its counsel after consultation with such Holder.

**2.7 FURNISHING INFORMATION**. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Sections 2.2, 2.3 or 2.4 that the selling Holders shall furnish to the Company in writing such information regarding themselves in their capacity as a shareholder of the Company, the Registrable Securities held by them and the intended



method of disposition of such securities as shall be reasonably necessary in order to assure compliance with Federal and applicable state securities laws.

**2.8 INDEMNIFICATION**. In the event any Registrable Securities are included in a registration statement under Sections 2.2, 2.3 or 2.4:

**(a)** To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, officers and directors of each Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other applicable federal or state securities law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "***Violation***") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation of the Securities Act, the Exchange Act, any other federal or state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any other federal or state securities law in connection with the offering covered by such registration statement; and the Company will pay as incurred to each such Holder, partner, officer, director, underwriter or controlling Person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; *provided however*, that the indemnity agreement contained in this Section 2.8(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld or delayed, nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished by such Holder, partner, officer, director, underwriter or controlling person to the Company expressly for use in connection with such registration; *provided further*, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Holder or underwriter or other aforementioned person, or any person controlling such Holder or underwriter, from whom the person asserting any such losses, claims, damages or liabilities purchased shares in the offering, if a copy of the prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Holder or underwriter or other aforementioned person to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the shares to such person, and if the prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability.

**(b)** To the extent permitted by law, each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration qualifications or compliance is being effected, severally and not jointly, indemnify and hold harmless the Company, each of its directors, its officers, legal counsel and accountants for the Company and



each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, directors or officers or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, counsel or accountants, controlling person, underwriter or other such Holder, or partner, director, officer or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other applicable federal or state securities law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such statement or omission occurs in reliance upon and in conformity with written information furnished by such Holder to the Company expressly for use in connection with such registration in accordance with Section 2.7; and each such Holder will pay as incurred any legal or other expenses reasonably incurred by the Company or any such director, officer, counsel or accountants, controlling person, underwriter or other Holder, or partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action if it is judicially determined that there was such a Violation; *provided, however*, that the indemnity agreement contained in this Section 2.8(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Holder, which consent shall not be unreasonably withheld or delayed; *provided further*, that in no event shall any indemnity under this Section 2.8(b) exceed the net after tax proceeds from the offering received by such Holder, except in the case of fraud or willful misconduct (in either case, with an intention to cause harm to the Company).

**(c)** Promptly after receipt by an indemnified party under this Section 2.8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.8, deliver to the

indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; *provided, however,* that an indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 2.8, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.8.

**(d)** If the indemnification provided for in this Section 2.8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to



the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, that in no event shall any contribution by a Holder hereunder exceed the net after tax proceeds from the offering received by such Holder, except in the case of fraud or willful misconduct (in either case, with an intention to cause harm to the Company).

**(e)** Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with an underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

**(f)** The obligations of the Company and Holders under this Section 2.8 shall survive completion of any offering of Registrable Securities in a registration statement and the termination of this Agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement, which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

**2.9 ASSIGNMENT OF REGISTRATION RIGHTS**. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned by a Holder to a transferee or assignee of Registrable Securities that (a) is a subsidiary, parent, general partner, limited partner, retired or former partner, member or retired or former member, or shareholder of a Holder; (b) is a Holder's family member or trust for the benefit of an individual Holder; (c) acquires at least five percent (5%) of the then existing Registrable Securities; or (d) is an entity that is an Affiliate of such Holder; *provided, however*, (i) the transferor shall, within ten (10) days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned, and (ii) such transferee shall agree to be subject to all restrictions set forth in this Agreement.

**2.10 AMENDMENT OF REGISTRATION RIGHTS**. Any provision of this Section 2 may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holders of a majority of the Registrable Securities then outstanding, consenting as a single class. Any amendment or waiver effected in accordance with this Section 2.10 shall be binding upon each Holder and the Company. By acceptance of any benefits under this Section 2, Holders of Registrable Securities hereby agree to be bound by the provisions hereunder.



**2.11 LIMITATION ON SUBSEQUENT REGISTRATION RIGHTS**. Other than as provided in Section 6.10, after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of at least a majority of the Registrable Securities then existing, consenting as a single class, enter into any agreement with any holder or prospective holder of any securities of the Company that would grant such holder registration rights pari passu with, or senior to, those granted to the Holders hereunder, other than a right to a Special Registration Statement.

**2.12 "MARKET STAND-OFF" AGREEMENT**. Each Holder hereby agrees, if so requested by the Company and the representative of the underwriters of the Common Shares (or other securities) of the Company (the "***Underwriter Representative***"), that such Holder shall not sell, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale with respect to any Common Shares (or other securities) of the Company held by such Holder (other than those included in the registration) for a period specified by the Underwriter Representative not to exceed one hundred eighty (180) days following the effective date of a registration statement of the Company filed under the Securities Act relating to the Initial Offering (the "***Lock-Up Period***"); *provided however*, that if (i) during the last 17 days of the Lock-Up Period, the Company releases earnings results or material news or a material event relating to the Company occurs or (ii) prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-Up Period, then in either case the Lock-Up Period will be extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the occurrence of the material news or material event, as applicable, unless the underwriters waive, in writing, such extension; *provided, further*, that all officers and directors of the Company and holders of at least one percent (1%) of the Company's voting securities enter into similar agreements (collectively, the "***Similar Agreements***"), and *provided, further*, that if the Underwriter Representative shortens or waives these restrictions set forth in any of the Similar Agreements, the restrictions on the Holders shall be similarly shortened or waived on a *pro rata* basis.

**2.13 AGREEMENT TO FURNISH INFORMATION**. Each Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the managing underwriter that are consistent with such Holder's obligations under Section 2.7 or that are necessary to give further effect thereto. In addition, if requested by the Company or the Underwriter Representative, each Holder shall provide, within ten (10) days of such request, such information as may be required by the Company or such Underwriter Representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in Section 2.12 and this Section 2.13 shall not apply to a

Special Registration Statement. The Company may impose stop-transfer instructions with respect to the shares of Common Shares (or other securities) subject to the foregoing restriction until the end of the period determined pursuant to Section 2.12. Each Holder agrees that any transferee of any shares of Registrable Securities shall be bound by Sections 2.12 and 2.13. The lead managing underwriters of the Company's stock are intended third party beneficiaries of Sections 2.12 and 2.13 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto.



**2.14 RULE 144 REPORTING**. With a view to making available to the Holders the benefits of SEC Rule 144 and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company shall:

**(a)** make and keep available adequate current public information, as those terms are understood and defined in SEC Rule 144, at all times after the effective date of the registration statement filed by the Company for the Initial Offering;

**(b)** use commercially reasonable efforts to file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after the Company has become subject to such reporting requirements); and

**(c)** furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) to the extent accurate, a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144 (at any time after ninety (90) days after the effective date of the registration statement filed by the Company for the Initial Offering), the Securities Act, and the Exchange Act (at any time after the Company has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after the Company so qualifies); (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company with the SEC; and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration (at any time after the Company has become subject to the reporting requirements under the Exchange Act) or pursuant to Form S-3 (at any time after the Company so qualifies to use such form).

**2.15 CHANGES IN COMMON SHARES OR PREFERRED SHARES**. If, and as often as, there is any change in the Common Shares or the Preferred Shares by way of a stock split, stock dividend, combination, recapitalization, reclassification and the like, or through a merger, consolidation, reorganization or recapitalization, or by any other means, appropriate adjustment shall be made in the provisions hereof so that the rights and privileges granted hereby shall continue with respect to the Common Shares and the Preferred Shares as so changed.

**SECTION 3: COVENANTS OF THE COMPANY.**

**3.1 BASIC FINANCIAL INFORMATION AND REPORTING.**

**(a)** The Company shall, and shall cause each Subsidiary to, maintain true books and records of account in which full and correct entries will be made of all its business transactions pursuant to a system of accounting established and administered in accordance with generally accepted accounting principles consistently applied, and will set aside on its books all such proper accruals and reserves as shall be required under generally accepted accounting principles consistently applied.

**(b)** As soon as practicable after the end of each fiscal year of the Company, and in any event within one hundred twenty (120) days thereafter, the Company shall furnish



each holder of Preferred Shares a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such fiscal year, and a consolidated statement of income, a consolidated statement of cash flows and a statement of shareholders' equity of the Company and its Subsidiaries, for such year, all prepared in accordance with generally accepted accounting principles consistently applied and setting forth in each case, in comparative form, the figures for the previous fiscal year, all in reasonable detail. Such financial statements shall be accompanied by a report and opinion thereon by independent public accountants of national or regional standing selected by the Company's Board of Directors.

**(c)** The Company shall furnish to each holder of Preferred Shares, as soon as practicable after the end of each calendar month, and in any event within thirty (30) days thereafter, a consolidated balance sheet of the Company and its Subsidiaries as of the end of each such month, and a consolidated statement of income, a consolidated statement of cash flows and a statement of shareholders' equity of the Company and its Subsidiaries for such month and for the current fiscal year to date, prepared in accordance with generally accepted accounting principles consistently applied and setting forth in each case, in comparative form, the corresponding figures for the corresponding period of the preceding fiscal year, all in reasonable detail, with the exception that no notes need be attached to such statements and year-end audit adjustments may not have been made.

**(d)** Upon the request of any holder of Preferred Shares that is not a former officer or employee of, or consultant to, the Company, the Company shall furnish the following to such holder:

**(i)** promptly upon receipt or publication thereof, any written reports submitted to the Company by independent public accountants in connection with an annual or interim audit of the books of the Company and its Subsidiaries made by such accountants, and written reports prepared by the Company to comply with any other investment or loan agreement;

**(ii)** promptly after the commencement thereof, notice of all actions, suits, litigation proceedings and other proceedings pending or, to the knowledge of the Company, threatened against the Company or any Subsidiary affecting any of their respective material properties or assets, or against any officer, director, employee or holder of more than five percent (5%) of the capital stock of the Company relating to such person's performance of duties for the Company or relating to his stock ownership in the Company or otherwise relating to the business of the Company including, without limiting their generality, actions pending or, to the knowledge of the Company, threatened involving the prior employment of any of the Company's officers or employees in their use in connection with the Company's business of any information or techniques allegedly proprietary to any of their former employers, or any event or condition on the basis of which such litigation, proceeding or investigation might properly be instituted before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting the Company or any Subsidiary; *provided however*, that the Company reserves the right to withhold any such information from any holder of Preferred Shares if in the opinion of counsel to the Company, access to such information could adversely affect the attorney-client privilege between the Company and its counsel;

**(iii)** promptly upon sending, making available, or filing the same, such reports and financial statements as the Company or any Subsidiary shall send or make available to the shareholders of the Company or file with the SEC; and

**(iv)** such other information respecting the business, properties or the condition or operations, financial or other, of the Company or any of its Subsidiaries as any such holder of Preferred Shares may from time to time reasonably request.

**3.2 OPERATING BUDGET**. The Company will cause its management to prepare and submit to the Board of Directors of the Company for its approval no later than the commencement of each fiscal year, an annual budget and plan for such fiscal year, together with management's written discussion and analysis of such budget and plan. The budget shall be accepted as the budget for such fiscal year when it has been approved by the Board and, thereupon, a copy of such budget as so approved promptly shall be sent to each holder of Preferred Shares. The Company shall review the budget periodically and shall promptly advise the Board of Directors and each holder of Preferred Shares of all changes therein and all material deviations therefrom.

**3.3 INSPECTION RIGHTS**. Each holder of Preferred Shares and its representatives (including, without limitation, its lawyers and accountants) that is not a former officer or employee of, or consultant to, the Company shall have the right, at such holder's expense, to inspect the premises and the books and records of the Company at such reasonable times and as often as may be reasonably requested. The Company shall make such books and records available for inspection by such holder of Preferred Shares and its accountants or such other persons as such holder of Preferred Shares shall designate in writing to the Company upon giving notice of any such inspection.

**3.4 RESERVATION OF SHARES**. The Company will at all times reserve and keep available, solely for issuance and delivery upon the conversion of the Preferred Shares, all Common Shares issuable from time to time upon such conversion. If at any time the number of authorized but unissued Common Shares shall not be sufficient to effect the conversion of the Preferred Shares without limitation of any remedies available to any Investor, the Company will forthwith take such corporate action as may be necessary to increase its authorized but unissued shares of Common Shares to such number of shares as shall be sufficient for such purposes. The Company shall obtain any authorization, consent, approval or other action by, or make any filing with, any court or administrative body that may be required under applicable state securities laws in connection with the issuance of shares of Common Shares upon conversion of the Preferred Shares.

**3.5 CONFIDENTIALITY OF RECORDS**. Each Investor agrees that such Investor will keep confidential and will not disclose, divulge, or use for any purpose (other than to monitor its investment in the Company) any confidential information obtained from the Company pursuant to the terms of this Agreement (including notice of the Company's intention to file a registration statement), unless such confidential information (a) is known or becomes known to the public in general (other than as a result of a breach of this Section 3.5 by such Investor), (b) is or has been independently developed or conceived by the Investor without use of the Company's confidential information, or (c) is or has been made known or disclosed to the Investor by a third party



without a breach of any obligation of confidentiality such third party may have to the Company; provided, however, that an Investor may disclose confidential information (i) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company; (ii) to the extent consented to in writing by the Company, to any prospective purchaser of any Registrable Securities from such Investor that is not a direct competitor of the Company, if such prospective purchaser agrees to be bound by the provisions of this Section 3.5; (iii) to any Affiliate, partner, member, shareholder, or wholly owned subsidiary of such Investor in the ordinary course of business, provided that such Investor informs such Person that such information is confidential and directs such Person to maintain the confidentiality of such information; or (iv) as may otherwise be required by law, provided that the Investor promptly notifies the Company of such disclosure and takes reasonable steps to minimize the extent of any such required disclosure.

**3.6 CORPORATE OPPORTUNITIES**. The Company acknowledges that Adams Street is in the business of venture capital investing and therefore review the business plans and related proprietary information of many enterprises, including enterprises that may have products or services that compete directly or indirectly with those of the Company. Notwithstanding the preceding sentence, Adams Street, for so long as it or any venture capital funds under common management with Adams Street (an "***Affiliated Fund***"), is a Holder of Registrable Securities, shall give written notice to the Company of any investment opportunities which Adams Street or any of its Affiliated Funds intends to pursue in any entity which in the preceding twelve month period derived in excess of 50% of its revenues (including any revenues of its subsidiaries) from the provision of payroll services. The Board of Directors of the Company shall consider and provide written notice of whether or not the Company will pursue such investment opportunity within twenty (20) business days of receiving notice from Adams Street of such investment opportunity. In the event that the Board of Directors declines an investment opportunity, then Adams Street or any of its Affiliated Funds bringing the same to the attention of the Board of Directors shall be free to take advantage thereof for its own account. Except as expressly set forth in this Section 3.6, nothing in this Agreement shall preclude or in any way restrict any Investor from investing or participating in any particular enterprise, regardless of whether such enterprise has products or services that compete with those of the Company. The obligations pursuant to this Section 3.6 are personal to Adams Street and shall not be assumed by any assignee of Registrable Securities, other than an Affiliated Fund of Adams Street.

**3.7 BLUE SKY**. If at any time that a record owner of Preferred Shares converts any share of Preferred Shares and the issuance of Common Shares upon such conversion may not be lawfully made without the registration or qualification of such Common Shares under the securities or blue sky laws of any jurisdiction, the Company shall promptly use its commercially reasonable efforts to effect such registration or qualification at the Company's expense and such action shall not count as a registration under Section 2.1 of this Agreement; *provided however*, that the Company shall not be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph, (B) subject itself to taxation in any such jurisdiction or (C) execute a general consent to service of process in effecting such registration, unless the Company is already subject to service in such jurisdiction, and, in each case, except as may be required under the Securities Act. The Company shall make any and all filings necessary (whether before or after the closing) in connection with the offer, issuance and sale and/or transfer of the Preferred Shares to be issued pursuant to the Purchase



Agreement under the securities or blue sky laws of any jurisdiction in which such filing is required by law.

**3.8 STOCK VESTING**. Unless otherwise approved by Board with the approval of the Preferred Director, all stock options and other stock equivalents issued after the date of this Agreement to employees, directors, consultants and other service providers shall be subject to vesting as follows:

(a) twenty-five percent (25%) of such stock shall vest at the end of the first year following the earlier of the date of issuance or such person's services commencement date with the Company, and (b) seventy-five percent (75%) of such stock shall vest over the remaining three (3) years, and will not include accelerated vesting provisions upon a change of control, other than acceleration following a termination of employment by the employer without cause or by the employee for good reason following a Deemed Liquidation Event; *provided however*, that the foregoing provisions of this Section 3.8 shall not apply to any agreements or arrangements in effect as of the date hereof between Holdings and any of its members relating to the vesting of membership interests in Holdings. With respect to any restricted shares purchased by any such person, the Company's repurchase option shall provide that upon such person's termination of employment or service with the Company, with or without cause, the Company or its assignee shall have the option to purchase at cost any unvested shares of stock held by such person.

**3.9 EMPLOYEE AGREEMENTS**. The Company shall use its commercially reasonable efforts to obtain, and shall cause its Subsidiaries to use their commercially reasonable efforts to obtain, a Proprietary Information and Inventions Agreement from all employees and consultants upon their employment by the Company or any of its Subsidiaries. The Company shall not, and shall cause its Subsidiaries to not, amend, modify, terminate, waive or otherwise alter, in whole or in part, any such Proprietary Information and Inventions Agreement or any such written agreements without the consent of the Company's Board of Directors.

**3.10 COMMITTEES AND MEETINGS OF DIRECTORS**.

**(a)** The Company will hold in person meetings of the Company's Board of Directors not less than four (4) times a year on a quarterly basis. Not less than five (5) days prior to each regular meeting of the Board of Directors, the Company shall prepare and deliver to the members of the Board of Directors, an update on the business of the Company, including, comparisons of actual versus projected financial information, an analysis of the material financial and performance metric (such as sales pipeline and bookings reports).

**(b)** The Board of Directors shall maintain a Compensation Committee and an Audit Committee, each to have the powers and authority which are customarily provided to such committees, and each to consist of not less than two directors and include the Preferred Director and the director nominated pursuant to the Voting Agreement (as defined pursuant to the Purchase Agreement) by a majority in interest of the Key Holders and a majority in interest of the Investors.

**3.11 D&O LIABILITY INSURANCE**. The Company shall maintain in full force and effect directors and officers liability insurance coverage in an amount not less than $3,000,000 or such other amount as mutually satisfactory to the Preferred Director and the Board of Directors.



**3.12 EXPENSES OF DIRECTORS AND OBSERVERS**. The Company will promptly reimburse in full, each director of the Company who is not an employee of the Company for all of his or her reasonable out-of-pocket expenses incurred in attending each meeting of the Board of Directors of the Company or any committee thereof.

**3.13 409A COMPLIANCE**. The Company will use its reasonable best efforts to assure that all stock options and other stock equivalents issued by the Company after the date of this Agreement to employees, directors, consultants and other service providers shall be effected so as to avoid the payment or accrual of any excise tax pursuant to Section 409A of the Code.

**SECTION 4: PARTICIPATION RIGHTS.**

**4.1 SUBSEQUENT OFFERINGS**. Each Investor and Key Executive shall have a right to purchase such Investor's or Key Executive's *pro rata* share of all Equity Securities that the Company may, from time to time, propose to sell and issue after the date of this Agreement, other than the Equity Securities excluded by Section 4.7 hereof. Each Investor's *pro rata* share is equal to the ratio of (a) the number of shares of the Company's outstanding Common Shares (treating all shares of convertible preferred stock or warrants to acquire convertible preferred stock on an as-converted to Common Shares basis and including all shares of Common Shares issuable upon the exercise of outstanding warrants or options), which such Investor holds of record immediately prior to the issuance of such Equity Securities to (b) the total number of shares of the Company's outstanding Common Shares (treating all shares of convertible preferred stock or warrants to acquire convertible preferred stock on an as-converted to Common Shares basis and including all shares of Common Shares issuable upon the exercise of outstanding warrants or options) immediately prior to the issuance of such Equity Securities. Each Key Executive's *pro rata* share is equal to the ratio of (a) such Key Executive's number of Key Executive Shares to (b) the total number of shares of the Company's outstanding Common Shares (treating all shares of convertible preferred stock or warrants to acquire convertible preferred stock on an as-converted to Common Shares basis and including all shares of Common Shares issuable upon the exercise of outstanding warrants or options) immediately prior to the issuance of such Equity Securities.

**4.2 EXERCISE OF RIGHTS**. If the Company proposes to issue any Equity Securities, it shall give each Shareholder written notice of its intention, describing the Equity Securities, the price and the terms and conditions upon which the Company proposes to issue the same. Each Investor and Key Executive shall have ten (10) business days from the giving of such notice to agree to purchase its *pro rata* share of the Equity Securities for the price and upon the terms and conditions specified in the notice by giving written notice to the Company and stating therein the quantity of Equity Securities to be purchased. Notwithstanding the foregoing, the Company shall not be required to offer or sell such Equity Securities to any Investor or Key Executive that would cause the Company to be in violation of applicable Federal or state securities laws by virtue of such offer or sale or require the Company to deliver any offering memorandum or similar documentation not otherwise provided in order to avoid any such violation.

**4.3 ISSUANCE OF EQUITY SECURITIES TO OTHER PERSONS**. If not all of the Investors and Key Executives elect to purchase their *pro rata* share of the Equity Securities, then the Company shall promptly notify in writing the Investors and Key Executives that have so



elected (the "***Participating Shareholders***") and offer the Participating Shareholders the right to acquire such unsubscribed shares. Each Participating Shareholder shall have five (5) business days after receipt of such notice to notify the Company of such Participating Shareholder's election to purchase all or a portion thereof of the unsubscribed shares. If the Shareholders fail to exercise in full the participation rights set forth in Section 4.2 hereof and this Section 4.3, the Company shall have ninety (90) days thereafter to sell the Equity Securities in respect of which the Shareholders' rights were not exercised, at a price and upon terms and conditions no more favorable to the purchasers thereof than specified in the Company's original notice of the sale of such Equity Securities to the Shareholders pursuant to Section 4.2 hereof. If the Company has not sold such Equity Securities within ninety (90) days of such notice, the Company shall not thereafter issue or sell any Equity Securities, without first offering such securities to the Shareholders in the manner provided above.

**4.4 TERMINATION AND WAIVER OF PARTICIPATION RIGHTS**. The participation rights established by this Section 4 shall not apply to, and shall terminate upon the earlier of (a) the closing of a Qualified Initial Public Offering or (b) upon the occurrence of a Change in Control.

**4.5 AMENDMENT AND WAIVER**. The participation rights set forth in this Section 4 may be amended, or any provision waived with the written consent of Shareholders holding a majority of the shares of Common Shares held by such Investors (treating all shares of convertible preferred stock or warrants to acquire convertible preferred stock on an as-converted to Common Shares basis and including all shares of Common Shares issuable upon the exercise of outstanding warrants or options), or as permitted by Section 6.5.

**4.6 TRANSFER OF PARTICIPATION RIGHTS**. The participation rights set forth in this Section 4 are transferable to the same parties, and subject to the same limitations, as are set forth for registration rights in Section 2.9 hereof.

**4.7 EXCLUDED SECURITIES**. The participation rights set forth in this Section 4 shall not apply to the following Equity Securities:

**(a)** any Equity Securities that would be excluded from the definition of "Additional Shares of Common Shares" (as defined in the Charter, as such may be amended from time to time in accordance with the terms thereof);

**(b)** shares of Common Shares or Preferred Shares issued in connection with any stock split, stock dividend, recapitalization or the like by the Company; and

**(c)** any Equity Securities that are issued by the Company pursuant to a registration statement filed under the Securities Act.

**SECTION 5: MANAGER EQUITY AGREEMENTS AND RELATED CALL RIGHTS**

**5.1 NO AMENDMENTS AND ENFORCEMENT OF MANAGER EQUITY AGREEMENTS**. Holdings shall not, without the prior written consent of the holders of a majority of the then outstanding Preferred Shares, amend, modify, terminate or waive any rights pursuant to and in accordance with any of the Manager Equity Agreements, including without limitation, any



agreement to accelerate the vesting or otherwise alter or modify the vesting schedule with respect to any Unvested Units (as described in the applicable Manager Equity Agreement). Holdings agrees to provide the Company and the holders of Preferred Shares of written notice within not more than three (3) business days of (x) any event which would require a forfeiture of any Unvested Units pursuant to and as defined in any Manager Equity Agreement or (y) any exercise of a Repurchase Option or a Put Right pursuant to and as defined in any Manager Equity Agreement. In the event that, notwithstanding the foregoing requirements, Holdings fails to enforce any right pursuant to any Manager Equity Agreement regarding the forfeiture of Unvested Units, the holders of a majority of the Preferred Shares shall have the right to exercise such remedy and cause the forfeiture of such Unvested Units on behalf of, and in the name of, Holdings.

**5.2 CALL RIGHTS IN CONNECTION WITH EXERCISE OF PUT RIGHT BY, OR REPURCHASE OPTION FROM, SENIOR MANAGERS**. At any time not more than thirty (30) days after delivery by Holdings of written notice to the Company and the holders of Preferred Shares and the Key Executives of the exercise of a Put Right or Repurchase Option pursuant to and as defined in the Manager Equity Agreement of any Senior Manager, the Company shall have the right, but not the obligation, to purchase from Holdings, for consideration equal to and of the same kind as paid for the Units subject to such Put Right, up to a number of Common Shares owned by Holdings equal to the product of (x) the number of Common Shares then owned by Holdings multiplied by (y) the Liquidation Applicable Percentage of such Senior Manager multiplied by (z) a fraction, the numerator of which is the number of Units which are subject to such Put Right or Repurchase Option and the denominator of which is the aggregate number of Units owned by such Senior Manager immediately prior to such exercise (the "***Available Shares***"). The Company shall exercise such right by delivering written notice to Holdings, the Investors and the Key Executives. If the Company does not elect to purchase all of the Available Shares, then the Investors and the Key Executives shall have the right, but not the obligation, by delivery of written election to the Company and Holdings not more than sixty (60) days after the delivery of the notice from Holdings of the exercise of such Put Right or Repurchase Option, to purchase any Available Shares not elected to be purchased by the Company (the "***Remaining Available Shares***") upon the same terms as available to the Company. In the event that the Investors and the Key Executives elect to purchase, in the aggregate, a number of Common Shares in excess of the number of Remaining Available Shares, then the right to purchase such Remaining Available Shares shall be allocated among the electing Investors and Key Executives based upon each of their *pro rata* shares, with the *pro rata* share of each of them equal to the ratio of (a) in the case of an Investor, the total number of shares of the Company's outstanding Common Shares owned by such Investor and in the case of a Key Executive, such Key Executive's number of Key Executive Shares to (b) the total number of shares of the Company's outstanding Common Shares owned by all participating Investors at such time plus the aggregate number of Key Executive Shares owned by all participating Key Executives (with the number of Key Executive Shares owned by any Key Executive for the purposes of this Section 5.3 to include only the shares actually owned by such Key Executive, and not any Key Executive Indirect Shares), in all such cases treating all shares of convertible preferred stock or warrants to acquire convertible preferred stock on an as-converted to Common Shares basis and including all shares of Common Shares issuable upon the exercise of outstanding warrants or options



**5.3 CALL RIGHT IN CONNECTION WITH EXERCISE OF PUT RIGHT BY, OR PURCHASE OPTION FROM, HASKE OR BEAUCHAMP**. In the event of the exercise of a Put Right or Repurchase Option pursuant to and as defined in the Manager Equity Agreement of either Haske or Beauchamp, then the Company shall have the right to purchase from Holdings and Holdings shall sell to the Company, for consideration equal to and of the same kind as paid for the Units subject to such Put Right or Repurchase Option, up to a number of Common Shares owned by Holdings equal to the product of (x) the number of Common Shares then owned by Holdings multiplied by (y) the Liquidation Applicable Percentage of Haske or Beauchamp, as applicable, multiplied by (z) a fraction, the numerator of which is the number of Units which are subject to such Put Right or Repurchase Option and the denominator of which is the aggregate number of Units owned by such Key Executive immediately prior to such exercise; provided, however that this call option may only be exercised (i) upon the election of the holders of a majority of Preferred Shares then outstanding and (ii) if the Common Shares purchased pursuant to such award are issued as awards, or made subject to awards issued, pursuant to the Company's Equity Incentive Plan, to officers of the Company who assume some or all of the functional duties performed by Haske or Beauchamp, as applicable, prior to the event which gave rise to the forfeiture of Units in Holdings.

**5.4 FRACTIONAL SHARES**. No fractional shares of the Common Shares shall be purchased by the Company pursuant to the provisions of Section 5.2 or 5.3. In lieu of selling any fractional share of a Common Share to the Company pursuant to Section 5.2 or 5.3, the number of Common Shares sold by Holdings to the Company shall be rounded to the nearest whole number of Common Shares (with one half being rounded upward).

**SECTION 6: MISCELLANEOUS.**

**6.1 GOVERNING LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL**. This Agreement shall be governed by and construed in accordance with the Business Corporation Act of the State of Illinois as to matters within the scope thereof, and as to all other matters shall be governed by and construed in accordance with the internal laws of the State of Illinois, without regard to its principles of conflicts of laws. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of Illinois located in Cook County and the United States District Court for the Northern District of Illinois for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.



**6.2 SUCCESSORS AND ASSIGNS**. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time; provided, however, that prior to the receipt by the Company of adequate written notice of the transfer of any Registrable Securities specifying the full name and address of the transferee, the Company may deem and treat the person listed as the holder of such shares in its records as the absolute owner and Holder of such shares for all purposes, including the payment of dividends or any redemption price.

**6.3 ENTIRE AGREEMENT**. This Agreement, the Exhibits and Schedules hereto, the Purchase Agreement, the Transaction Agreements, and the other documents delivered pursuant thereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein. This Agreement supersedes the Original Agreement in its entirety, which shall have no further force or effect.

**6.4 SEVERABILITY**. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

**6.5 AMENDMENT AND WAIVER**.

**(a)** Except as otherwise expressly provided herein, this Agreement may be amended or modified only upon the written consent of the Company and the holders of a majority of the Registrable Securities. Any such amendment or modification effected in accordance with this Section 6.5(a) shall be binding on all parties hereto, even if they do not execute such consent.

**(b)** Subject to Section 6.5(c) below, any party hereto may waive compliance with any agreements, covenants or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

**(c)** Except as otherwise expressly provided, the obligations of the Company and the rights of the Holders under this Agreement may be waived with respect to all parties to this Agreement (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the holders of a majority of the Registrable Securities. Any such waiver effected in accordance with this Section 6.5(c) shall be binding on all parties hereto, even if they do not execute such consent.

**(d)** For the purposes of determining the number of Holders or Investors entitled to vote or exercise any rights hereunder, the Company shall be entitled to rely solely on the list of record holders of its stock as maintained by or on behalf of the Company.



**6.6 DELAYS OR OMISSIONS**. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any Holder, upon any breach, default or noncompliance of the Company under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any Holder's part of any breach, default or noncompliance under the Agreement or any waiver on such Holder's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing.

**6.7 NOTICES**. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, or (c) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth on the Exhibit attached hereto or at such other address as such party may designate by ten (10) days advance written notice to the other parties hereto.

**6.8 ATTORNEYS' FEES**. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

**6.9 TITLES AND SUBTITLES**. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

**6.10 AGGREGATION OF STOCK**. All shares of Registrable Securities held or acquired by Affiliated entities or persons or persons or entities under common management or control shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

**6.11 COUNTERPARTS**. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, and all of which together shall constitute one and the same agreement. This Agreement may be executed by facsimile or electronic .pdf signatures.

**SIGNATURES ON THE FOLLOWING PAGES**



The parties hereto have executed this Amended and Restated Investor Rights Agreement as of the date set forth in the first paragraph hereof.

**THE COMPANY:**

**PAYLOCITY CORPORATION**

By: /s/Steven Beachamp
Name: Steven Beauchamp
Title: Chief Executive Officer

**KEY EXECUTIVES:**

/s/Steven Beachamp
Steven Beauchamp

/s/Michael Haske
Michael Haske

/s/Dan Miller
Dan Miller

**HOLDINGS:**

**PAYLOCITY MANAGEMENT HOLDINGS, LLC**

By: /s/Steven Sarowitz
Name: Steven Sarowitz
Title: Manager

***Paylocity Corporation Amended and Restated Investor Rights Agreement Signature Page***

The parties hereto have executed this Amended and Restated Investor Rights Agreement as of the date set forth in the first paragraph hereof.

**INVESTORS:**

**ADAMS STREET 2006 DIRECT FUND, L.P.**

By: **ASP 2006 DIRECT MANAGEMENT, LLC**,
its general partner

By: **ADAMS STREET PARTNERS, LLC**,
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2007 DIRECT FUND, L.P.**

By: **ASP 2007 DIRECT MANAGEMENT, LLC**,
its general partner

By: **ADAMS STREET PARTNERS, LLC**,
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2008 DIRECT FUND, L.P.**

By: **ASP 2008 DIRECT MANAGEMENT, LLC**,
its general partner

By: **ADAMS STREET PARTNERS, LLC**,
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

***Paylocity Corporation Amended and Restated Investor Rights Agreement Signature Page***

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The parties hereto have executed this Amended and Restated Investor Rights Agreement as of the date set forth in the first paragraph hereof.

**INVESTORS:**

**ADAMS STREET 2009 DIRECT FUND, L.P.**

By: **ASP 2009 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2010 DIRECT FUND, L.P.**

By: **ASP 2010 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2011 DIRECT FUND L.P.**

By: **ASP 2011 DIRECT MANAGEMENT LP,**
its general partner

By: **ASP 2011 DIRECT MANAGEMENT LLC,**
Its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

***Paylocity Corporation Amended and Restated Investor Rights Agreement Signature Page***

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The parties hereto have executed this Amended and Restated Investor Rights Agreement as of the date set forth in the first paragraph hereof.

**INVESTORS**:

**ADAMS STREET 2012 DIRECT FUND L.P.**

By: **ASP 2012 DIRECT MANAGEMENT LP,**
its general partner

By: **ASP 2012 DIRECT MANAGEMENT LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET CO-INVESTMENT FUND II, L.P.**

By: **ASP DIRECT CO-INVEST MANAGEMENT II, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner



**Exhibit A**

**SCHEDULE OF INVESTORS**

| NAME | Address |
|---|---|
| ADAMS STREET 2006 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2007 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2008 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2009 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2010 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2011 DIRECT FUND L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2012 DIRECT FUND L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET CO-INVESTMENT FUND II, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |

**PAYLOCITY CORPORATION**

**AMENDED AND RESTATED**
**RIGHT OF FIRST REFUSAL AND CO-SALE AGREEMENT**

**THIS AMENDED AND RESTATED RIGHT OF FIRST REFUSAL AND CO-SALE AGREEMENT** (this ***"Agreement"***) is made and entered into as of June 29, 2012, by and among Paylocity Corporation, an Illinois corporation (the ***"Company"***), Paylocity Management Holdings, LLC (***"Holdings"***), the persons and entities listed on EXHIBIT A attached hereto (the ***"Preferred Holders"***) and the Key Executives (as defined below):

**WITNESSETH:**

**WHEREAS,** Holdings is the beneficial holder of an aggregate of 54,619,200 shares of the Company's Common Shares.

**WHEREAS,** each of the Key Executives own equity interests in Holdings.

**WHEREAS,** the Company, Holdings, the Preferred Holders and the Key Executives are parties to that certain Right of First Refusal and Co-Sale Agreement dated as of May 14, 2008 (the "***Original Agreement***").

**WHEREAS,** pursuant to that certain Series B Preferred Share Purchase Agreement of even date herewith (the ***"Purchase Agreement"***), certain of the Preferred Holders are purchasing shares of Series B Preferred (as defined below).

**WHEREAS,** the parties hereto, pursuant to Section 7.3 of the Original Agreement, constitute the required parties to amend and restate the Original Agreement.

**WHEREAS,** in connection with the consummation of the transactions contemplated by the Purchase Agreement, the parties desire to amend and restate the Original Agreement in order to grant first refusal and co-sale rights to the Company and to the Preferred Holders on the terms and conditions set forth herein.

**NOW, THEREFORE,** in consideration of these premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree hereto as follows:

**1. DEFINITIONS.**

Unless otherwise defined herein, capitalized terms used in this Agreement shall have the following meanings:

**1.1** ***"Charter"*** means the Company's Articles of Incorporation in the form contemplated by the Purchase Agreement, as it may be amended and restated from time to time as permitted thereby.

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**1.2** ***"Common Shares"*** means the Company's Common Shares, $0,001 par value per share, including any Common Shares issued or issuable upon conversion of the Company's outstanding Series A Preferred or Series B Preferred or exercise of any option, warrant or other security or right of any kind convertible into or exchangeable for Common Shares.

**1.3** ***"Holders"*** shall mean, collectively, the Key Holders and the Preferred Holders.

**1.4** ***"Holdings LLC Agreement"*** shall mean that certain Second Amended and Restated Limited Liability Company Operating Agreement of Holdings, dated on or about the date hereof, as it may be amended or amended and restated from time to time.

**1.5** ***"Key Executive Indirect Shares"*** shall mean, with respect to any Key Executive at any time, the product of (x) the number of Key Holder Shares owned by Holdings multiplied by (y) Liquidation Applicable Percentage (as defined pursuant to that Holdings LLC Agreement) for such Key Executive and his Permitted Transferees (as defined pursuant to the Holdings LLC Agreement).

**1.6** ***"Key Executive"*** shall mean each of Miller, Beauchamp and Haske, so long as he remains an employee, officer or director of, or consultant to, the Company.

**1.7** ***"Key Executive Shares"*** shall mean, with respect to any Key Executive, the sum of (x) number of Key Holder Shares owned directly by such Key Executive plus (y) the Key Executive Indirect Shares.

**1.8** ***"Key Holder"*** shall mean any of Holdings and any transferee of Common Shares from Holdings, other than the Company and any Preferred Holder.

**1.9** ***"Key Holder Shares"*** means the Common Shares now owned or subsequently acquired by the Key Holders by gift, purchase, dividend, option exercise or any other means whether or not such securities are registered in a Key Holder's name or beneficially or legally owned by such Key Holder, including any interest of a spouse in any of the Key Holder Shares, whether that interest is asserted pursuant to marital property laws or otherwise. The number of shares of Key Holder Shares owned by the Key Holders as of the date hereof are set forth on EXHIBIT A, which may be amended from time to time by the Company to reflect changes in the number of Common Shares owned by the Key Holders, but the failure to so amend shall have no effect on such Key Holder Shares being subject to this Agreement.

**1.10** ***"Preferred Holder Shares"*** means the shares of Series A Preferred and Series B Preferred and any Common Shares now owned or subsequently acquired by the Preferred Holders whether or not such securities are only registered in a Preferred Holder's name or beneficially or otherwise legally owned by such Preferred Holder.

**1.11** "***Repurchase***" shall refer to the series of transactions taking place on or about the date of this Agreement, whereby the Company will repurchase Common Shares from certain holders of its Common Shares, including Holdings, and by which Holdings will redeem certain units from its unit holders.

**1.12** "***Series A Preferred***" means the Company's Series A Preferred Shares now owned or hereafter acquired by the Preferred Holders and their permitted assigns, taken together.

**1.13** "***Series B Preferred***" means the Company's Series B Preferred Shares now owned or hereafter acquired by the Preferred Holders and their permitted assigns, taken together.

**1.14** ***"Shares"*** shall mean, collectively, the Key Holder Shares and Preferred Holder Shares.

**1.15** ***"Transfer"*** means any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by request, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfers to receivers, levying creditors, trustees or receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary or by operation of law, directly or indirectly, of any of the Key Holder Shares.

**2. RESTRICTIONS ON TRANSFER.**

**2.1 NO TRANSFERS TO SPECIFIED ENTITIES**. Notwithstanding anything to the contrary contained in this Agreement, no Holder shall under any circumstances Transfer any Shares to any of the entities set forth on EXHIBIT B attached hereto without the prior written consent of Holdings; provided, that in the event that Holdings consents to any such Transfer of Shares pursuant to this Section 2.2, it must also consent to the exercise in full of the co-sale rights pursuant to and in accordance with Section 3.4 hereunder in connection therewith, to the extent they would otherwise be applicable. Any such Transfer in contravention of this Section 2.2 shall be null and void and shall not be reflected in the Company's stock register.

**2.2 TRANSFERS OF UNITS IN HOLDINGS**. Without the prior written consent of Preferred Holders holding not less than a majority of all of the outstanding Preferred Holder Shares, Holdings shall not:

**(a)** issue, sell or otherwise cause to exist any membership interests other than the membership interests outstanding on the date hereof, as reflected in the Holdings LLC Agreement as in effect on the date hereof; or

**(b)** permit the Transfer of any membership interests outstanding on the date hereof other than (i) to Permitted Transferees (as defined pursuant to the Holdings LLC Agreement) or (ii) to Holdings pursuant to any Manager Equity Agreement existing on the date hereof or hereafter entered into by Holdings with the prior written consent of Preferred Holders holding not less than a majority of all of the outstanding Preferred Holder Shares.

Each of the Key Executives agrees that they will not Transfer any of their membership interests in Holdings other than as permitted by Section 2.2(b).

**3. TRANSFERS BY A KEY HOLDER.**

**3.1 NOTICE OF TRANSFER**. If a Holder proposes to Transfer any Shares (a ***"Transferor"***) other than pursuant to Section 4.1, the Transferor shall promptly give written notice (the ***"Notice"***) simultaneously to the Company and to each of the Preferred Holders and



the Key Executives at least forty-five (45) days prior to the closing of such Transfer. The Notice shall describe in reasonable detail the proposed Transfer including, without limitation, the number and class of shares of Shares to be transferred, the nature of such Transfer, the consideration to be paid, and the name and address of each prospective purchaser or transferee.

**3.2 COMPANY RIGHT OF FIRST REFUSAL**. For a period of twenty (20) days following receipt of any Notice described in Section 3.1, the Company shall have the right to purchase all or a portion of the Shares subject to such Notice on the same terms and conditions as set forth therein. The Company's purchase right shall be exercised by written notice signed by an officer of the Company (the ***"Company Notice"***) and delivered to the Transferor proposing to Transfer the Shares within such twenty (20) day period. The Company shall effect the purchase of the Shares, including payment of the purchase price, by the later of (i) the date specified in the Notice as the intended date of the Transfer or (ii) thirty (30) days after delivery of the Notice, and at such time the Transferor shall deliver to the Company the certificate(s) representing the Shares to be purchased by the Company, each certificate to be properly endorsed for transfer. The Shares so purchased shall thereupon be cancelled and cease to be issued and outstanding shares of the Common Shares.

**3.3 OTHER SHAREHOLDER RIGHT OF FIRST REFUSAL**.

**(a)** In the event that the Transferor is a Key Holder and the Company does not elect to purchase all of the Key Holder Shares available pursuant to its rights under Section 3.2 within the period set forth therein, the Transferor shall promptly give written notice (the ***"Second Notice"***) to each of the Preferred Holders and any Key Executives (other than the Key Executive who is the Transferor or whose Permitted Transferee (as defined pursuant to the Holdings LLC Agreement) is the Transferor) (each, a ***"Non-Transferring Key Executive"***), which shall set forth the number of shares of the Key Holder Shares not purchased by the Company and which shall include the terms of the Notice set forth in Section 3.1. Each Preferred Holder and Non- Transferring Key Executive shall then have the right, exercisable upon written notice to the Key Holder Transferor (the ***"Shareholder Notice"***) within ten (10) days after the receipt of the Second Notice, to purchase its pro rata share of the Key Holder Shares subject to the Second Notice and on the same terms and conditions as set forth therein. The Preferred Holders and Non-Transferring Key Executives who so exercise their rights (the ***"Participating Shareholders"***) shall effect the purchase of the Key Holder Shares, including payment of the purchase price, by the later of (i) the date specified in the Notice as the intended date of the Transfer or (ii) thirty (30) days after delivery of the Notice, and at such time the Key Holder Transferor shall deliver to the Participating Shareholders the certificate(s) representing the Key Holder Shares to be purchased by the Participating Shareholders, each certificate to be properly endorsed for transfer.

**(b)** Each Preferred Holder's and Non-Transferring Key Executive's *pro rata* share shall be equal to the product obtained by multiplying (i) the aggregate number of shares of the Key Holder Shares covered by the Second Notice, and (ii) a fraction, the numerator of which is the number of shares of the Common Shares owned by the Participating Shareholder at the time of the Transfer and the denominator of which is the total number of shares of the Common Shares owned by all of the Participating Shareholders at the time of the Transfer (with the number of shares owned by any Non-Transferring Key Executive for the purposes of this

Section 3.3 to include only the shares actually owned by such Key Executive, and not any Key Executive Indirect Shares).

**3.4 RIGHT OF CO-SALE**.

**(a)** In the event the Preferred Holders or Non-Transferring Key Executives fail to exercise their respective rights to purchase all of the Key Holder Shares subject to Section 3.3 hereof, following the exercise or expiration of the rights of purchase set forth in Section 3.3, then the Key Holder Transferor shall deliver to the Company, each Preferred Holder and each Non-Transferring Key Executive written notice (the ***"Co-Sale Notice"***) that each Preferred Holder and Non-Transferring Key Executive shall have the right, exercisable upon written notice to such Key Holder Transferor with a copy to the Company within fifteen (15) days after receipt of the Co-Sale Notice, to participate in such Transfer of Key Holder Shares on the same terms and conditions. Such notice shall indicate the number of shares of Preferred Holder Shares or Key Holder Shares up to that number of shares determined under Section 2.4(b) such Preferred Holder or Non-Transferring Key Executive wishes to sell under his or her right to participate. To the extent one or more of the Preferred Holders or Non-Transferring Key Executives exercise such right of participation in accordance with the terms and conditions set forth below, the number of shares of Key Holder Shares that such Key Holder Transferor may sell in the transaction shall be correspondingly reduced.

**(b)** Each Preferred Holder and each Non-Transferring Key Executive may sell all or any part of that number of shares equal to the product obtained by multiplying (i) the aggregate number of shares of the Key Holder Shares covered by the Co-Sale Notice and not purchased by the Company, the Preferred Holders or Non-Transferring Key Executives pursuant to Section 2.2 or 2.3 by (ii) a fraction, the numerator of which is the number of shares of the Common Shares owned (or deemed to be owned upon conversion of the Series A Preferred or Series B Preferred) by such Preferred Holder or Non-Transferring Key Executive at the time of the Transfer and the denominator of which is the total number of shares of the Common Shares owned (or deemed to be owned upon conversion of the Series A Preferred or Series B Preferred) by such Key Holder Transferor (excluding shares purchased by the Company and/or Preferred Holders pursuant to Section 3.2 or 3.3) and the Preferred Holders and Non-Transferring Key Executives at the time of the Transfer (with the number of shares owned by any Non-Transferring Key Executive for the purposes of this Section 3.4 to include only the shares actually owned by such Key Executive, and not any Key Executive Indirect Shares). If not all of the Preferred Holders or Non-Transferring Key Executives elect to sell their shares of capital stock proposed to be transferred within said fifteen (15) day period, then the Key Holder Transferor shall promptly notify in writing the Preferred Holders and Non- Transferring Key Executives who do so elect and shall offer such Preferred Holders and Non- Transferring Key Executives the additional right to participate in the sale of such additional shares of Key Holder Shares proposed to be transferred on the same percentage basis as set forth above in this subsection 3.4(b). The Preferred Holders and Non-Transferring Key Executives shall have five (5) days after receipt of such notice to notify the Key Holder Transferor in writing with a copy to the Company of its election to sell all or a portion thereof of the unsubscribed shares.

**(c)** Each Preferred Holder and Non-Transferring Key Executive who elects to participate in the Transfer pursuant to this Section 3.4 (a ***"Co-Sale Participant"***) shall effect its



participation in the Transfer by promptly delivering to such Key Holder Transferor for transfer to the prospective purchaser one or more certificates, properly endorsed for transfer, which represent:

**(i)** the type and number of shares of the Common Shares which such Co-Sale Participant elects to sell; or

**(ii)** that number of shares of the Series A Preferred and/or Series B Preferred which is at such time convertible into the number of shares of the Common Shares which such Co-Sale Participant elects to sell; *provided, however*, that if the prospective purchaser objects to the delivery of the Series A Preferred and/or Series B Preferred in lieu of shares of the Common Shares, such Co-Sale Participant shall convert such Series A Preferred and/or Series B Preferred into shares of the Common Shares and deliver shares of the Common Shares as provided in Section 3.4(c)(i) above. The Company agrees to make any such conversion concurrent with the actual transfer of such shares to the purchaser.

In the event that a Preferred Holder or Non-Transferring Key Executive does not comply with and/or exercise its rights pursuant to this Section 2.4(c) within ten (10) business days after the delivery of the Co-Sale Notice, such Preferred Holder's or Non-Transferring Key Executive's right to participate in the Transfer shall be deemed to have expired.

**(d)** The stock certificate or certificates that the Co-Sale Participant delivers to such Key Holder Transferor pursuant to Section 3.4(c) shall be transferred to the prospective purchaser in consummation of the sale of the Common Shares pursuant to the terms and conditions specified in the Co-Sale Notice, and the Key Holder Transferor shall concurrently therewith remit to such Co-Sale Participant that portion of the sale proceeds to which such Co- Sale Participant is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibit such assignment or otherwise refuse to purchase shares or other securities from a Co-Sale Participant exercising its rights of co-sale hereunder, such Key Holder Transferor shall not sell to such prospective purchaser or purchasers any Key Holder Shares unless and until, simultaneously with such sale, such Key Holder Transferor shall purchase such shares or other securities from such Co-Sale Participant on the same terms and conditions specified in the Co-Sale Notice.

**(e)** The exercise or non-exercise of the rights of the Preferred Holders or Non- Transferring Key Executives hereunder to participate in one or more Transfers of the Key Holder Shares made by such Key Holder Transferor shall not adversely affect their rights to participate in subsequent Transfers of Key Holder Shares subject to Section 2.

**(f)** To the extent that the Preferred Holders or Non-Transferring Key Executives do not elect to participate in the sale of the Key Holder Shares subject to the Co-Sale Notice, such Key Holder Transferor may, not later than sixty (60) days following delivery to the Company of the Co-Sale Notice, enter into an agreement providing for the closing of the Transfer of such Key Holder Shares covered by the Co-Sale Notice within thirty (30) days of such agreement on terms and conditions not more materially favorable to the transferor than those described in the Co-Sale Notice. Any proposed Transfer on terms and conditions materially more favorable than those described in the Co-Sale Notice, as well as any subsequent

proposed Transfer of any of the Key Holder Shares by a Key Holder Transferor, shall again be subject to the first refusal and co-sale rights of the Company, Preferred Holders and/or Non- Transferring Key Executives and shall require compliance by a Key Holder Transferor with the procedures described in this Section 3.

**3.5 PREFERRED HOLDER SHARES**. Notwithstanding anything herein to the foregoing, (i) the provisions of Section 3.3 and 3.4 shall in no event apply to any Transfer of Preferred Holder Shares, (ii) the provisions of Section 3.2 shall not apply to any Transfer of Series A Preferred (or Common Shares issuable upon conversion thereof) on or after May 14, 2013 and (iii) the provisions of Section 3.2 shall not apply to any Transfer of Series B Preferred (or Common Shares issuable upon conversion thereof) on or after the fifth anniversary of the date hereof.

**3.6 ASSIGNMENT OF RIGHTS**. The rights of first refusal and co-sale rights pursuant to Sections 3.3 and 3.4 may be assigned by a Preferred Holder or Key Executive to a transferee or assignee of Preferred Holder Shares or Key Holder Shares that (a) is a subsidiary, parent, general partner, limited partner, retired or former partner, member or retired or former member, or shareholder of a Holder; (b) is a Preferred Holder's or Key Executive's family member or trust for the benefit of an individual Holder; or (c) is an entity that is an Affiliate of such Preferred Holder or Key Executive; *provided, however*, (i) the transferor shall, within ten (10) days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such rights are being assigned, and (ii) such transferee shall agree to be subject to all restrictions set forth in this Agreement.

**4. EXEMPT TRANSFERS.**

**4.1 REGISTERED STOCK; ESTATE PLANNING; EQUITY OWNERS**. Notwithstanding the foregoing, the provisions of Sections 2.1 and 3 shall not apply to (a) the sale of any Shares to the public pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission under the Securities Act of 1933, as amended (the ***"Securities Act"***), or (b) to any Transfer (i) that is a conveyance in trust, gift or devise or descent of any Shares by a Holder to any family member, without consideration and for estate planning purposes, (ii) to any person occurring as a matter of law upon the death or declaration of incompetence of a Holder, (iii) to the Company, (iv) by merger or share exchange or an exchange of existing shares for other shares of the same or a different class or series in the Company, or (v) to any equity owner (partner, shareholder, member or the like) of any Key Holder so long as either (x) such transfer is made as a distribution by such Key Holder in accordance with the terms and conditions of its organizational documents and without the payment of further consideration by the transferee or (y) such transferee is an "accredited investor", as that term is defined in Rule 501 of Regulation D, as promulgated under the Securities Act; provided, that in the case of any Transfer pursuant to Section 4.1(b) (other than pursuant to clause (iii)), the transferee agrees in writing to be bound by the terms and conditions of this Agreement, in the same manner as the transferring Holder. In the event that the Transfer is being made pursuant to the provisions of Section 4.1 hereof, the transferee shall deliver written notice of such Transfer, which shall state under which clause of this Section the Transferor proposes to make such Transfer.



**4.2 EXISTING RIGHTS**. This Agreement is subject to, and shall in no manner limit the right which the Company may have to repurchase securities from the Key Holder Transferor pursuant to (a) a stock restriction agreement or other agreement between the Company and the Key Holder Transferor and (b) any right of first refusal set forth in the bylaws of the Company or in any incentive stock option, restricted stock or other incentive plan or agreement adopted by the Company for the benefit of its employees, non-employee directors, contractors and consultants.

**4.3 REPURCHASE**. This Agreement shall in no way restrict or apply to the Repurchase, which shall be specifically exempt from the operation of this Agreement.

**5. PROHIBITED TRANSFERS.**

**5.1 CALL OPTION**. In the event a Transferor shall Transfer any Shares in contravention of the first refusal rights of the Company under Section 3.2 hereof or, to the extent applicable, the Preferred Holders or Non-Transferring Key Executives under Section 3.3 hereof (a ***"Prohibited Transaction"***), the Company, first, but only with respect to Transfers in contravention of Section 3.2, and, the Preferred Holders and Non-Transferring Key Executives, second (but only to with respect to Transfers in contravention of Section 3.3, shall have the option to purchase from the pledgee, purchaser or transferee of the Shares transferred in contravention of Section 3.2 or Section 3.3, as applicable, the number of shares that the Company, the Preferred Holders or the Non-Transferring Key Executives, as applicable, would have been entitled to purchase had such Prohibited Transaction been effected in accordance with Section 3.2 and Section 3.3, on the following terms and conditions:

**(a)** The price per share at which the shares are to be purchased by the Company, the Preferred Holders or the Non-Transferring Key Executives, as the case may be, shall be equal to the price per share paid to such Transferor by the third party purchaser or purchasers of such Shares that is subject to the Prohibited Transaction; and

**(b)** The Transferor effecting such Prohibited Transaction shall reimburse the Company, the Preferred Holders and any Non-Transferring Key Executives for any expenses, including legal fees and expenses, incurred in effecting such purchase.

**5.2 PUT OPTION**. In the event a Key Holder Transferor shall Transfer any Key Holder Shares in contravention of the co-sale rights of the Preferred Holders or Non-Transferring Key Executives under Section 3.4 hereof (a ***"Prohibited Transfer"***), each Preferred Holder and Non-Transferring Key Executive, in addition to such other remedies as may be available at law, in equity or hereunder, shall have the right to sell to such Key Holder Transferor the type and number of shares of the Common Shares equal to the number of shares each Preferred Holder or Non-Transferring Key Executive would have been entitled to transfer to the purchaser under Section 3.4 hereof had the Prohibited Transfer been effected pursuant to and in compliance with the terms hereof. Such sale shall be made on the following terms and conditions:

**(a)** The price per share at which the shares are to be sold to the Key Holder Transferor shall be equal to the price per share paid by the purchaser to such Key Holder Transferor in such Prohibited Transfer. The Key Holder Transferor shall also reimburse each



Preferred Holder and Non-Transferring Key Executive for any and all fees and expenses, including legal fees and expenses, incurred in connection with the exercise or the attempted exercise of the Preferred Holder's or Non-Transferring Key Executive's rights under Section 3.4 hereof.

**(b)** Within sixty (60) days after the date on which a Preferred Holder or Non- Transferring Key Executive received notice of the Prohibited Transfer or otherwise became aware of the Prohibited Transfer, such Preferred Holder or Non-Transferring Key Executive shall, if exercising the option created hereby, deliver to the Key Holder Transferor the certificate or certificates representing the shares to be sold, each certificate to be properly endorsed for transfer.

**(c)** Such Key Holder Transferor shall, upon receipt of the certificate or certificates for the shares to be sold by a Preferred Holder or Non-Transferring Key Executive, pursuant to this Section 4.2, pay the aggregate purchase price therefor and the amount of reimbursable fees and expenses, as specified in Section 4.2(a), in cash or by other means reasonably acceptable to the Preferred Holder or Non-Transferring Key Executive, as applicable.

**(d)** Notwithstanding the foregoing, any attempt by a Key Holder Transferor to Transfer Key Holder Shares in violation of Section 2 hereof shall be voidable at the option of a majority in interest of the Preferred Holders and Non-Transferring Key Executives if a majority in interest of the Preferred Holders and Non-Transferring Key Executives do not elect to exercise the put option set forth in this Section 4.2, and the Company agrees it will not effect such a transfer nor will it treat any alleged transferee as the holder of such shares without the written consent of a majority in interest of the Preferred Holders and Non-Transferring Key Executives.

**6. LEGEND.**

**6.1 TEXT**. Each certificate representing Shares (including, without limitation such shares of the Shares issued to any person in connection with a Transfer pursuant to Section 4.1 hereof) shall be stamped or otherwise imprinted with the following restrictive legend (the ***"Legend"***):

> "THE SALE, PLEDGE, HYPOTHECATION OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN RIGHT OF FIRST REFUSAL AND CO-SALE AGREEMENT BY AND BETWEEN THE STOCKHOLDER, THE COMPANY AND CERTAIN HOLDERS OF STOCK OF THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY."

**6.2 RESTRICTIONS AND REMOVAL**. During the term of this Agreement, the Company shall not remove, and shall not permit to be removed (upon registration of transfer, re-issuance of otherwise), the Legend from any such certificate and shall place or cause to be placed the Legend on any new certificate issued to represent Key Holder Shares theretofore represented by a



certificate carrying the Legend. Each Key Holder Transferor agrees that the Company shall instruct its transfer agent to impose transfer restrictions on the shares represented by certificates bearing the Legend to enforce the provisions of this Agreement and the Company agrees to promptly do so. The Legend shall be removed upon termination of this Agreement.

**7. MISCELLANEOUS.**

**7.1 CONDITIONS TO EXERCISE OF RIGHTS**. Exercise of the Preferred Holders' and Non-Transferring Key Executives' rights under this Agreement shall be subject to and conditioned upon, and the Key Holder Transferors and the Company shall use their best efforts to assist each Preferred Holder and Non-Transferring Key Executive in, compliance with applicable laws.

**7.2 GOVERNING LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL**. This Agreement shall be governed by and construed in accordance with the Business Corporation Act of the State of Illinois as to matters within the scope thereof, and as to all other matters shall be governed by and construed in accordance with the internal laws of the State of Illinois, without regard to its principles of conflicts of laws. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of Illinois located in Cook County and the United States District Court for the Northern District of Illinois for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

**7.3 AMENDMENT**. Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only by the written consent of (i) as to the Company, only by the Company, (ii) as to the Preferred Holders, by a majority in interest of the Preferred Holders and their assignees, pursuant to Section 6.4 hereof, (iii) as to Holdings, by Holdings and (iv) as to the Key Executives, by a majority in interest of the Key Executives (based upon their ownership of Key Executive Shares); provided, that no consent of any Key Executive shall be necessary for any amendment and/or restatement which includes additional holders of the Series A Preferred, Series B Preferred or other preferred stock of the Company as "Preferred Holders" and parties hereto. Any amendment or waiver effected in accordance with clauses (i), (ii), and (iii) of this Section 7.3 shall be binding upon each Preferred Holder, its successors and assigns, the Company and the Key Holders, and their successors and assigns.



**7.4 BINDING EFFECT**. This Agreement and the rights and obligations of the parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns and legal representatives.

**7.5 TERM**. This Agreement shall continue in full force and effect from the date hereof through the earliest of the following dates, on which date it shall terminate in its entirety:

**(a)** the date of the closing of a Qualified Initial Public Offering (as that term is defined in the Charter);

**(b)** the date of the closing of a sale, lease, or other disposition of all or substantially all of the Company's assets or the Company's merger into or consolidation with any other corporation or other entity, or any other corporate reorganization, in which the holders of the Company's outstanding voting stock immediately prior to such transaction own, immediately after such transaction, securities representing less than fifty percent (50%) of the voting power of the

corporation or other entity surviving such transaction; *provided*, *however*, that this Section 6.5(b) shall not apply to a merger effected exclusively for the purpose of changing the domicile of the Company; or

**(c)** the date as of which the parties hereto terminate this Agreement by written consent of the Company, a majority in interest of the Preferred Holders and a majority in interest of the Key Holders.

**7.6 OWNERSHIP**. The Key Holders represent and warrant that each is the sole legal and beneficial owner of those shares of Key Holder Shares such holder currently holds subject to this Agreement and that no other person has any interest (other than a community property interest) in such shares. The Preferred Holders represent and warrant that each is the sole legal and beneficial owner of those shares of Preferred Holder Shares such holder currently holds subject to this Agreement and that no other person has any interest (other than a community property interest) in such shares.

**7.7 NOTICES**. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, or (c) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth on the Exhibits hereto, or at such other address as such party may designate by ten (10) days advance written notice to the other parties hereto.

**7.8 SEVERABILITY**. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

**7.9 ATTORNEYS' FEES**. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from



the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

**7.10 ENTIRE AGREEMENT**. This Agreement and the Exhibits hereto, along with the Purchase Agreement and each of the Exhibits thereto, constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein. This Agreement supersedes the Original Agreement in its entirety, which shall have no further force or effect.

**7.11 ADDITIONAL PREFERRED HOLDERS AND KEY HOLDERS**. Notwithstanding anything to the contrary contained herein, if the Company shall issue additional shares of the Series A Preferred or Series B Preferred, any purchaser of such shares may become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement and shall be deemed a ***"Preferred Holder***" hereunder, and in the event that the Company shall issue additional Common Shares, any purchaser of such Common Shares may become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement and shall be deemed a ***"Key Holder"*** hereunder.

**7.12 COUNTERPARTS**. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, and all of which together shall constitute one and the same agreement. This Agreement may be executed by facsimile or electronic .pdf signatures.

**SIGNATURES ON THE FOLLOWING PAGES**



This Amended and Restated Right of First Refusal and Co-Sale Agreement is hereby executed as of the date first above written:

**THE COMPANY:**

**PAYLOCITY CORPORATION**

By: /s/Steven Beachamp
Name: Steven Beauchamp
Title: Chief Executive Officer

**KEY EXECUTIVES:**

/s/Steven Beauchamp
Steven Beauchamp

/s/Michael Haske
Michael Haske

/s/Dan Miller
Dan Miller

**HOLDINGS:**

**PAYLOCITY MANAGEMENT HOLDINGS, LLC**

By: /s/Steven Sarowitz
Name: Steven Sarowitz
Title: Manager



This Amended and Restated Right of First Refusal and Co-Sale Agreement is hereby executed as of the date first above written:

**PREFERRED HOLDERS:**

**ADAMS STREET 2006 DIRECT FUND, L.P.**

By: **ASP 2006 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2007 DIRECT FUND, L.P.**

By: **ASP 2007 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2008 DIRECT FUND, L.P.**

By: **ASP 2008 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner



This Amended and Restated Right of First Refusal and Co-Sale Agreement is hereby executed as of the date first above written:

**PREFERRED HOLDERS:**

**ADAMS STREET 2009 DIRECT FUND, L.P.**

By: **ASP 2009 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2010 DIRECT FUND, L.P.**

By: **ASP 2010 DIRECT MANAGEMENT, LLC,**

its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2011 DIRECT FUND L.P.**

By: **ASP 2011 DIRECT MANAGEMENT LP,**
its general partner

By: **ASP 2011 DIRECT MANAGEMENT LLC,**
Its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner



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This Amended and Restated Right of First Refusal and Co-Sale Agreement is hereby executed as of the date first above written:

**PREFERRED HOLDERS:**

**ADAMS STREET 2012 DIRECT FUND L.P.**

By: **ASP 2012 DIRECT MANAGEMENT LP,**
its general partner

By: **ASP 2012 DIRECT MANAGEMENT LLC,**
Its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET CO-INVESTMENT FUND II, L.P.**

By: **ASP DIRECT CO-INVEST MANAGEMENT II, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner



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**EXHIBIT A**

**LIST OF PREFERRED HOLDERS**

| Name | Address |
|---|---|
| ADAMS STREET 2006 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2007 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |

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|---|---|
| ADAMS STREET 2008 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2009 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2010 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2011 DIRECT FUND LP | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET 2012 DIRECT FUND LP | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |
| ADAMS STREET CO-INVESTMENT FUND II, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 |

**EXHIBIT B**

**PROHIBITED TRANSFERS**

Automatic Data Processing, Inc.
Paychex, Inc.

**PAYLOCITY CORPORATION**

**AMENDED AND RESTATED**
**VOTING AGREEMENT**

**THIS AMENDED AND RESTATED VOTING AGREEMENT** (this "***Agreement***") is made and entered into as of June 29, 2012, by and among Paylocity Corporation, an Illinois corporation (the "***Company***"), those certain holders of the Company's common shares (the "***Common Shares***") listed on EXHIBIT A attached hereto (the "***Key Holders***"), the holders of the Company's Series A Preferred Stock ("***Series A Preferred***") and the holders of the Company's Series B Preferred Stock ("***Series B Preferred***" and together with the Series A Preferred, the "***Preferred Shares***") listed on EXHIBIT B attached hereto (the "***Investors***," and together with the Key Holders, the "***Shareholders***").

**RECITALS**

**WHEREAS**, the Company, the Key Holders and certain of the Investors are parties to that certain Voting Agreement dated as of May 14, 2008 (the "***Original Agreement***").

**WHEREAS**, pursuant to that certain Series B Preferred Share Purchase Agreement of even date herewith (the "***Purchase Agreement***") certain of the Investors are purchasing shares of Series B Preferred.

**WHEREAS**, the parties hereto, pursuant to Section 4.5 of the Original Agreement, constitute the required parties to amend and restate the Original Agreement.

**WHEREAS,** the parties to this Agreement deem it in their best interests to amend and restate the Original Agreement as set forth herein.

**WHEREAS**, execution and delivery of this Agreement is a condition precedent to the obligations of the Investors to consummate the transactions contemplated by the Purchase Agreement.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of these premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**1. VOTING.**

**1.1 KEY HOLDER SHARES; INVESTOR SHARES**.

**(a)** The Key Holders each agree to hold all shares of voting capital stock of the Company registered in their respective names or beneficially owned by them as of the date hereof and any and all other securities of the Company legally or beneficially acquired by each of the Key Holders after the date hereof (collectively, the "***Key Holder Shares***") subject to, and to vote the Key Holder Shares in accordance with, the provisions of this Agreement.

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**(b)** The Investors each agree to hold all shares of voting capital stock of the Company (including but not limited to all of the Common Shares now held or issuable upon conversion of the Preferred Shares) registered in their respective names or beneficially owned by them as of the date hereof and any and all other securities of the Company legally or beneficially acquired by each of the Investors after the date hereof (collectively, the "***Investor Shares***"; together with the Key Holder Shares, the "***Shares***") subject to, and to vote the Investor Shares in accordance with, the provisions of this Agreement.

**1.2 MANNER OF VOTING**. The voting of Shares pursuant to this Agreement may be effected in person, by proxy, by written consent, or in any other manner permitted by applicable law. All of the Shareholders agree to execute any written consents required to perform the obligations of this Agreement, and the Company agrees at the request of any party entitled to designate Directors (as defined herein) to call a special meeting of Shareholders for the purpose of electing Directors as provided herein.

**1.3 BOARD SIZE**. At all regular or special meetings of the Shareholders of the Company following the date hereof, each of the Shareholders shall vote all of their respective Shares held by them (or the holders thereof shall consent pursuant to an action by written consent of the holders of capital stock of the Company) so as to ensure that the size of the Company's Board of Directors (the "***Board***") shall be no more than five (5) directors (each a "***Director***" and, collectively, the "***Directors***").

**1.4 ELECTION OF DIRECTORS**. On all matters relating to the election of the Directors, the Shareholders agree to vote all Shares held by them (or the holders thereof shall consent pursuant to an action by written consent of the holders of capital stock of the Company) so as to elect members of the Board as follows:

**(a)** one (1) representative of the Investors (the "***Investor Designee***") designated by a majority in interest of the Preferred Shares and Common Shares issued upon conversion of any Preferred Shares and which shall be nominated by Adams Street Partners, LLC, which individual shall initially be Jeffrey T. Diehl, and which director shall be the Preferred Director, as specified in the Company's Articles of Incorporation;

**(b)** three (3) representatives of the Key Holders designated by a majority in interest of the Common Shares held by the Key Holders, one of whom must be the person then serving as Chief Executive Officer of the Company (the "***CEO Director***"), which individuals shall initially be the Company's current Chief Executive Officer (Steven Beauchamp), Steven Sarowitz and Matthew Phillips; provided, however, that if for any reason the CEO Director shall cease to serve as the Chief Executive Officer of the Company, each of the Shareholders shall promptly vote their respective Shares (i) to remove the former Chief Executive Officer from the Board if such person has not resigned as a member of the Board, and (ii) to elect such person's replacement as Chief Executive Officer of the Company as the new CEO Director; and

**(c)** one individual not otherwise an Affiliate (as defined below) of the Company or of any Investor who has material human resources, payroll or software expertise and who is mutually acceptable to (i) Key Holders holding a majority of the Shares held by all

of the Key Holders, and (ii) the holders of a majority of the Shares held by the Investors, which shall be designated following the date of this Agreement.

For purposes of this Agreement, an individual, firm, corporation, partnership, association, limited liability company, trust or any other entity (collectively, a "***Person***") shall be deemed an "***Affiliate***" of another Person who, directly or indirectly, controls, is controlled by or is under common control with such Person, including, without limitation, any partner, officer, director, member or employee of such Person and any venture capital fund now or hereafter existing that is controlled by or under common control with one or more general partners of or shares the same management company with such Person.

**1.5 REMOVAL OF BOARD MEMBERS**. Each Shareholder also agrees to vote, or cause to be voted, all Shares owned by such Shareholder, or over which such Shareholder has voting control, from time to time and at all times, in whatever manner as shall be necessary to ensure that:

**(a)** no director elected pursuant to Section 1.4 of this Agreement may be removed from office unless (i) such removal is directed or approved by the affirmative vote of the Person, or of the holders of the requisite Shareholders, entitled under Section 1.4 to designate that director or (ii) in the case of the CEO Director, the Person originally entitled to occupy such Board seat pursuant to Section 1.4 is no longer so entitled to occupy such Board seat;

**(b)** any vacancies created by the resignation, removal or death of a director elected pursuant to Section 1.4 shall be filled pursuant to the provisions of Section 1.4; and

**(c)** upon the request of any party or parties entitled to designate a director as provided in Section 1.4 to remove such director, such director shall be removed.

All Shareholders agree to execute any written consents required to perform the obligations of this Agreement, and the Company agrees at the request of any party entitled to designate directors to call a special meeting of Shareholders for the purpose of electing directors.

**1.6 FAILURE TO DESIGNATE A BOARD MEMBER**. In the absence of any designation from the Persons or groups with the right to designate a Director as specified above, the Director previously designated by them and then serving shall be reelected if still eligible to serve as provided herein.

**1.7 NO LIABILITY FOR ELECTION OF RECOMMENDED DIRECTOR**. No party, nor any Affiliate of any such party, shall have any liability as a result of nominating or designating a person for election as a Director for any act or omission by such person in his or her capacity as a Director of the Company, nor shall any party have any liability as a result of voting for any such person in accordance with the provisions of this Agreement. None of the parties hereto and no officer, director, shareholder, partner, employee or agent of any party makes any representation or warranty as to the fitness or competence of the nominee or designee of any party to serve on the Board by virtue of such party's execution of this Agreement or by the act of such party in voting for such person pursuant to this Agreement.



**1.8 VOTE TO INCREASE AUTHORIZED COMMON SHARES**. Each Shareholder agrees to vote or cause to be voted all Shares owned by such Shareholder, or over which such Shareholder has voting control, from time to time and at all times, in whatever manner as shall be necessary to increase the number of authorized Common Shares from time to time to ensure that there will be sufficient Common Shares available for conversion of all of the Preferred Shares outstanding at any given time.

**1.9 LEGEND**.

**(a)** Each certificate representing the Shares shall be stamped or otherwise imprinted with the following restrictive legend (the "***Legend***"):

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS OF A VOTING AGREEMENT WHICH PLACES CERTAIN RESTRICTIONS ON THE VOTING OF THE SHARES REPRESENTED HEREBY. ANY PERSON ACCEPTING ANY INTEREST IN SUCH SHARES SHALL BE DEEMED TO AGREE TO AND SHALL BECOME BOUND BY ALL THE PROVISIONS OF SUCH AGREEMENT. A COPY OF SUCH VOTING AGREEMENT WILL BE FURNISHED TO THE RECORD HOLDER OF THIS CERTIFICATE WITHOUT CHARGE UPON WRITTEN REQUEST TO THE COMPANY AT ITS PRINCIPAL PLACE OF BUSINESS."

**(b)** During the term of this Agreement, the Company shall not remove, and shall not permit to be removed (upon registration of transfer, re-issuance or otherwise), the Legend from any such certificate and shall place or cause to be placed the Legend on any new certificate issued to represent Key Holder Shares or Investor Shares theretofore represented by a certificate carrying the Legend. The Shareholders agree that the Company shall instruct its transfer agent to impose transfer restrictions on the shares represented by certificates bearing the Legend to enforce the provisions of this Agreement and the Company agrees to promptly do so. The Legend shall be removed upon termination of this Agreement.

**(c)** In the event of any issuance of the Shares of the Company's voting securities hereafter to any of the Shareholders (including, without limitation, in connection with any stock split, stock dividend, recapitalization, reorganization, or the like), such Shares shall become subject to this Agreement and shall be endorsed with the Legend.

**1.10 SUCCESSORS**. The provisions of this Agreement shall be binding upon the successors in interest to any of the Key Holder Shares or the Investor Shares. The Company shall not permit the transfer of any of the Key Holder Shares or the Investor Shares on its books or issue a new certificate representing any of the Key Holder Shares or the Investor Shares unless and until the person to whom such security is to be transferred shall have executed a written agreement, substantially in the form of this Agreement, pursuant to which such person becomes a party to this Agreement and agrees to be bound by all the provisions hereof as if such person were a Key Holder or Investor, as applicable.

**1.11 OTHER RIGHTS**. Except as provided by this Agreement or any other agreement entered into in connection with the transactions contemplated by the Purchase Agreement, each Key Holder and Investor shall exercise the full rights of a holder of capital stock of the Company with respect to the Key Holder Shares and the Investor Shares, respectively.

**2. DRAG-ALONG RIGHT.**

**2.1 DEFINITIONS**. A "***Sale of the Company***" shall mean either: (a) a transaction or series of related transactions in which a Person, or a group of related Persons, acquires from Shareholders of the Company shares representing more than fifty percent (50%) of the outstanding voting power of the Company (a "***Stock Sale***"); or (b) a transaction that qualifies as a "***Deemed Liquidation Event***" as defined in the Company's Articles of Incorporation.

**2.2 ACTIONS TO BE TAKEN**. In the event that the holders of at least a majority of the Common Shares (the "***Selling Shareholders***") approve a Sale of the Company in writing, specifying that this Section 2 shall apply to such transaction, then each Shareholder hereby agrees:

**(a)** if such transaction requires shareholder approval, with respect to all Shares that such Shareholder owns or over which such Shareholder otherwise exercises voting power, to vote (in person, by proxy or by action by written consent, as applicable) all Shares in favor of, and adopt, such Sale of the Company and to vote in opposition to any and all other proposals that could delay or impair the ability of the Company to consummate such Sale of the Company;

**(b)** if such transaction is a Stock Sale, to sell the same proportion of shares of capital stock of the Company beneficially held by such Shareholder as is being sold, in the aggregate, and, except as expressly permitted in this Section 2, on the same terms and conditions as all other sales of capital stock;

**(c)** to execute and deliver all related documentation and take such other action in support of the Sale of the Company as shall reasonably be requested by the Company or the Selling Shareholders in order to carry out the terms and provision of this Section 2, including without limitation, executing and delivering instruments of conveyance and transfer, and any purchase agreement, merger agreement, indemnity agreement, escrow agreement, consent, waiver, governmental filing, share certificates duly endorsed for transfer (free and clear of impermissible liens, claims and encumbrances) and any similar or related documents;

**(d)** not to deposit, and to cause their Affiliates not to deposit, except as provided in this Agreement, any Shares of the Company owned by such party or Affiliate in a voting trust or subject any Shares to any arrangement or agreement with respect to the voting of such Shares, unless specifically requested to do so by the acquiror in connection with the Sale of the Company; and

**(e)** to refrain from exercising any dissenters' rights or rights of appraisal under applicable law at any time with respect to such Sale of the Company.



**2.3 EXCEPTIONS**. Notwithstanding the foregoing, a Shareholder will not be required to comply with Section 2.2 above in connection with any proposed Sale of the Company (the "***Proposed Sale***") unless:

**(a)** any representations and warranties to be made by such Shareholder in connection with the Proposed Sale are limited to representations and warranties related to authority, ownership and the ability to convey title to such Shares, including but not limited to representations and warranties that (i) the Shareholder holds all right, title and interest in and to the Shares such Shareholder purports to hold, free and clear of all liens and encumbrances, (ii) the obligations of the Shareholder in connection with the transaction have been duly authorized, if applicable, (iii) the documents to be entered into by the Shareholder have been duly executed by the Shareholder and delivered to the acquirer and are enforceable against the Shareholder in accordance with their respective terms and (iv) neither the execution and delivery of documents to be entered into in connection with the transaction, nor the performance of the Shareholder's obligations thereunder, will cause a breach or violation of the terms of any agreement, law or judgment, order or decree of any court or governmental agency;

**(b)** the Shareholder shall not be liable for the inaccuracy of any representation or warranty made by any other Person in connection with the Proposed Sale, other than the Company;

**(c)** the liability for indemnification, if any, of such Shareholder in the Proposed Sale and for the inaccuracy of any representations and warranties made by the Company in connection with such Proposed Sale, is several and not joint with any other Person, and is pro rata in accordance with such Shareholder's relative stock ownership of the Company (but reflecting the overall priority of the Common Shares and the Preferred Shares, with any theoretical indemnification liability to be treated as a reduction of the purchase price for the purpose of allocating the proceeds thereof);

**(d)** liability shall be limited to the amount of consideration actually paid to such Shareholder in connection with such Proposed Sale, except with respect to (i) representations and warranties of such Shareholder related to authority, ownership and the ability to convey title to such Shares, (ii) any covenants made by such Shareholder with respect to confidentiality or voting related to the Proposed Sale or (iii) claims related to fraud or willful breach by such Shareholder, the liability for which need not be limited;

**(e)** upon the consummation of the Proposed Sale, (i) each holder of the Preferred Shares and each holder of Common Shares will receive the same form of consideration for their Preferred Shares and their Common Shares, (ii) each holder of the Series B Preferred will receive the same amount of consideration per share of the Series B Preferred (iii) each holder of the Series A Preferred will receive the same amount of consideration per share of the Series A Preferred, (iv) each holder of the Common Shares will receive the same amount of consideration per share of the Common Shares, and (v) unless the holders of at least a majority of the Preferred Shares, voting together as a single class, elect otherwise by written notice given to the Company at least ten (10) days prior to the effective date of any such Proposed Sale, the aggregate consideration receivable by all holders of the Series B Preferred, the Series A Preferred and the Common Shares shall be allocated among the holders of the



Series B Preferred, the Series A Preferred and the Common Shares on the basis of the relative liquidation preferences to which the holders of the Series B Preferred, the Series A Preferred and the holders of the Common Shares are entitled in a Deemed Liquidation Event (assuming for this purpose that the Proposed

Sale is a Deemed Liquidation Event) in accordance with the Company's Articles of Incorporation in effect immediately prior to the Proposed Sale;

**(f)** subject to clause (e) above, requiring the same form of consideration to be received by the holders of the Common Shares and the Preferred Shares, if any holders of any capital stock of the Company are given an option as to the form and amount of consideration to be received as a result of the Proposed Sale, all holders of such capital stock will be given the same option; and

**(g)** in the case of the Investors, such Proposed Sale (i) provides solely for cash consideration or marketable securities, (ii) provides for the payment of consideration in a manner consistent with the provisions of Section 3 of Part A of the Company's Articles of Incorporation and (iii) to the extent the Investors retain an equity interest in the Company or any successor entity following the consummation of such Proposed Sale, does not contain terms or conditions which would require any approval of the Preferred Shares pursuant to Section 2(b) of Part A of the Company's Articles of Incorporation which has not been obtained.

**2.4 RESTRICTIONS ON SALES OF CONTROL OF THE COMPANY**. No Shareholder shall be a party to any Stock Sale unless all holders of the Preferred Shares are allowed to participate in such transaction and the consideration received pursuant to such transaction is allocated among the parties thereto in the manner specified in the Articles of Incorporation of the Company in effect immediately prior to the Stock Sale (as if such transaction were a Deemed Liquidation Event), unless the holders of at least a majority of the Preferred Shares, voting together as a single class, elect otherwise by written notice given to the Company at least ten (10) days prior to the effective date of any such transaction or series of related transactions.

**3. REMEDIES; TERMINATION.**

**3.1 COVENANTS OF THE COMPANY**. The Company agrees to use its best efforts, within the requirements of applicable law, to ensure that the rights granted under this Agreement are effective and that the parties enjoy the benefits of this Agreement. Such actions include, without limitation, the use of the Company's best efforts to cause the nomination and election of the Directors as provided in this Agreement.

**3.2 IRREVOCABLE PROXY**. Each party to this Agreement hereby constitutes and appoints the other parties hereto, and each of them, with full power of substitution, as the proxies of the party with respect to the matters set forth herein, including without limitation, election of persons as members of the Board in accordance with Section 1 hereto, votes to increase authorized shares pursuant to Section 1 hereof and votes regarding any Sale of the Company pursuant to Section 2 hereof, and hereby authorizes each of them to represent and to vote, if and only if the party (a) fails to vote or (b) attempts to vote (whether by proxy, in person or by written consent), in a manner which is inconsistent with the terms of this Agreement, all of such party's Shares in favor of the election of persons as members of the Board determined pursuant to and in accordance with the terms and provisions of this Agreement or the increase of



authorized shares or approval of any Sale of the Company pursuant to and in accordance with the terms and provisions of Sections 1 and 2 respectively, of this Agreement. The proxy granted pursuant to the immediately preceding sentence is given in consideration of the agreements and covenants of the Company and the parties in connection with the transactions contemplated by this Agreement and, as such, is coupled with an interest and shall be irrevocable unless and until this Agreement terminates or expires pursuant to Section 3.4 hereof. Each party hereto hereby revokes any and all previous proxies with respect to the Shares and shall not hereafter, unless and until this Agreement terminates or expires pursuant to Section 3.4 hereof, purport to grant any other proxy or power of attorney with respect to any of the Shares, deposit any of the Shares into a voting trust or enter into any agreement (other than this Agreement), arrangement or understanding with any person, directly or indirectly, to vote, grant any proxy or give instructions with respect to the voting of any of the Shares, in each case, with respect to any of the matters set forth herein.

**3.3 REMEDIES CUMULATIVE**. All remedies, either under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

**3.4 TERMINATION**. This Agreement shall continue in full force and effect from the date hereof through the earliest of the following dates, on which date it shall terminate in its entirety:

**(a)** the date of the closing of Qualified Initial Public Offering (as that term is defined in the Company's Articles of Incorporation); or

**(b)** the date upon which the parties hereto terminate this Agreement by written consent by a majority in interest of the Investors and a majority in interest of the Key Holders.

**4. MISCELLANEOUS.**

**4.1 OWNERSHIP**. Each Shareholder represents and warrants to the other Shareholders and the Company that (a) such Shareholder now owns the Shares, free and clear of liens or encumbrances, and has not, prior to or on the date of this Agreement, executed or delivered any proxy or entered into any other voting agreement or similar arrangement other than one which has expired or terminated prior to the date hereof, and (b) such Shareholder has full power and capacity to execute, deliver and perform this Agreement, which has been duly executed and delivered by, and evidences the valid and binding obligation of, such Shareholder enforceable in accordance with its terms.

**4.2 FURTHER ACTION**. If and whenever the Shares owned by a Shareholder are sold or otherwise transferred (including, without limitation a distribution of Key Holder Shares by a Key Holder which is a limited liability company to its members), such Shareholder or the personal representative of such Shareholder shall do all things and execute and deliver all documents and make all transfers, and cause any transferee of the Shares to do all things and execute and deliver all documents, as may be necessary to consummate such sale consistent with this Agreement.



**4.3 SPECIFIC PERFORMANCE**. The parties hereto hereby declare that it is impossible to measure in money the damages which will accrue to a party hereto or to their heirs, personal representatives, or assigns by reason of a failure to perform any of the obligations under this Agreement and agree that the terms of this Agreement shall be specifically enforceable. If any party hereto or his heirs, personal representatives, or assigns institutes any action or proceeding to specifically enforce the provisions hereof, any person against whom such action or proceeding is brought hereby waives the claim or defense therein that such party or such personal representative has an adequate remedy at law, and such person shall not offer in any such action or proceeding the claim or defense that such remedy at law exists.

**4.4 GOVERNING LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL**. This Agreement shall be governed by and construed in accordance with the Business Corporation Act of the State of Illinois as to matters within the scope thereof, and as to all other matters shall be governed by and construed in accordance with the internal laws of the State of Illinois, without regard to its principles of conflicts of laws. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of Illinois located in Cook County and the United States District Court for the Northern District of Illinois for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

**4.5 AMENDMENT OR WAIVER**. This Agreement may be amended (or provisions of this Agreement waived) only by an instrument in writing signed by (a) the Company, (b) holders of a majority of Shares held by the Investors, and (c) holders of a majority of Shares held by the Key Holders. Any amendment or waiver so effected shall be binding upon the Company, each of the parties hereto and any assignee of any such party, provided, however, that notwithstanding the foregoing, Section 1.4(a) of this Agreement may not be amended or waived without the written consent of a majority in interest of the holders of the Preferred Shares and Section 1.4(b) of this Agreement may not be amended or waived without the written consent of a majority in interest of the holders of the Common Shares.

**4.6 SEVERABILITY**. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.



**4.7 SUCCESSORS**. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors, assigns, administrators, executors and other legal representatives.

**4.8 ADDITIONAL SHARES**.

**(a)** Notwithstanding anything to the contrary contained herein, if the Company issues additional Preferred Shares after the date hereof, as a condition to the issuance of such shares the Company shall require that the purchaser of such shares become a party to this Agreement by executing and delivering (i) the Adoption Agreement in the form attached to this Agreement as EXHIBIT C (an "***Adoption Agreement***"), or (ii) a counterpart signature page hereto agreeing to be bound by and subject to the terms of this Agreement as an Investor and Shareholder hereunder. In either event, each such person shall thereafter be deemed an Investor and Shareholder for all purposes under this Agreement.

**(b)** In the event that after the date of this Agreement, the Company enters into an agreement with any Person to issue shares of capital stock to such Person (other than to a purchaser of Preferred Shares described in the foregoing subsection (a)), following which such Person shall hold Shares constituting one-half of one percent (0.5%) or more of the Company's then outstanding capital stock (treating for this purpose all shares of the Common Shares issuable upon exercise of or conversion of outstanding options, warrants or convertible securities, as if exercised and/or converted or exchanged), then, the Company shall cause such Person, as a condition precedent to entering into such agreement, to become a party to this Agreement by executing an Adoption Agreement, agreeing to be bound by and subject to the terms of this Agreement as a Key Holder and thereafter such person shall be deemed a Key Holder for all purposes under this Agreement.

**(c)** In the event that subsequent to the date of this Agreement any shares or other securities are issued on, or in exchange for, any of the Key Holder Shares or the Investor Shares by reason of any stock dividend, stock split, combination of shares, reclassification or the like, such shares or securities shall be deemed to be Key Holder Shares or Investor Shares, as the case may be, for purposes of this Agreement.

**4.9 TRANSFERS**. Each transferee or assignee of any Shares subject to this Agreement shall continue to be subject to the terms hereof, and, as a condition precedent to the Company's recognizing such transfer, each transferee or assignee shall agree in writing to be subject to each of the terms of this Agreement by executing and delivering an Adoption Agreement. Upon the execution and delivery of an Adoption Agreement by any transferee, such transferee shall be deemed to be a party hereto as if such transferee were the transferor and such transferee's signature appeared on the signature pages of this Agreement and shall be deemed to be an Investor and Shareholder, or Key Holder and Shareholder, as applicable. The Company shall not permit the transfer of the Shares subject to this Agreement on its books or issue a new certificate representing any such Shares unless and until such transferee shall have complied with the terms of this Section. Each certificate representing the Shares subject to this Agreement if issued on or after the date of this Agreement shall be endorsed by the Company with the legend set forth in Section 1.8.



**4.10 WAIVER**. No waivers of any breach of this Agreement extended by any party hereto to any other party shall be construed as a waiver of any rights or remedies of any other party hereto or with respect to any subsequent breach.

**4.11 ATTORNEY'S FEES**. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

**4.12 NOTICES**. Any notices required in connection with this Agreement shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, or (c) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All notices shall be addressed to the holder appearing on the books of the Company or at such address as such party may designate by ten (10) days advance written notice to the other parties hereto.

**4.13 ENTIRE AGREEMENT**. This Agreement and the Exhibits hereto, along with the Purchase Agreement and each of the Exhibits thereto, constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof and no party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein. This Agreement supersedes the Original Agreement in its entirety, which shall have no further force or effect.

**4.14 AGGREGATION OF STOCK**. All Preferred Shares held or acquired by Affiliates entities or Persons under common management or control shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

**4.15 COUNTERPARTS**. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, and all of which together shall constitute one and the same agreement. This Agreement may be executed by facsimile or electronic .pdf signatures.

**SIGNATURES ON THE FOLLOWING PAGES**



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The parties hereto have executed this Amended and Restated Voting Agreement as of the date first above written.

**THE COMPANY:**

**PAYLOCITY CORPORATION**

By: /s/Steven Beauchamp
Name: Steven Beauchamp
Title: Chief Executive Officer

**THE KEY HOLDERS:**

**PAYLOCITY MANAGEMENT HOLDINGS, LLC**

By: /s/Steven Sarowitz
Name: Steven Sarowitz
Title: Manager

***Paylocity Corporation Amended and Restated Voting Agreement Signature Page***

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The parties hereto have executed this Amended and Restated Voting Agreement as of the date first above written.

**INVESTORS:**

**ADAMS STREET 2006 DIRECT FUND, L.P.**

By: **ASP 2006 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2007 DIRECT FUND, L.P.**

By: **ASP 2007 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2008 DIRECT FUND, L.P.**

By: **ASP 2008 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner



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The parties hereto have executed this Amended and Restated Voting Agreement as of the date first above written.

**INVESTORS:**

**ADAMS STREET 2009 DIRECT FUND, L.P.**

By: **ASP 2009 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2010 DIRECT FUND, L.P.**

By: **ASP 2010 DIRECT MANAGEMENT, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET 2011 DIRECT FUND L.P.**

By: **ASP 2011 DIRECT MANAGEMENT LP,**
its general partner

By: **ASP 2011 DIRECT MANAGEMENT LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner



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The parties hereto have executed this Amended and Restated Voting Agreement as of the date first above written.

**INVESTORS:**

**ADAMS STREET 2012 DIRECT FUND L.P.**

By: **ASP 2012 DIRECT MANAGEMENT LP,**
its general partner

By: **ASP 2012 DIRECT MANAGEMENT LLC,**
Its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

**ADAMS STREET CO-INVESTMENT FUND II, L.P.**

By: **ASP DIRECT CO-INVEST MANAGEMENT II, LLC,**
its general partner

By: **ADAMS STREET PARTNERS, LLC,**
Its managing member

By: /s/Jeffrey T. Diehl
Name: Jeffrey T. Diehl
Title: Partner

***Paylocity Corporation Amended and Restated Voting Agreement Signature Page***

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**EXHIBIT A**

**LIST OF KEY HOLDERS**

| Name | Address | Common Shares |
|---|---|---|
| PAYLOCITY MANAGEMENT HOLDINGS, LLC | 3850 N. Wilke Road<br>Arlington Heights, Illinois 60060 | 54,619,200 |

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**EXHIBIT B**

**LIST OF INVESTORS**

| Name | Address | Series A Preferred | Series B Preferred |
|---|---|---|---|
| ADAMS STREET 2006 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 2,829,729 | 458,524 |
| ADAMS STREET 2007 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 3,195,543 | 517,800 |
| ADAMS STREET 2008 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 3,474,728 | 2,030,436 |
| ADAMS STREET 2009 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 0 | 1,269,196 |
| ADAMS STREET 2010 DIRECT FUND, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 0 | 720,972 |
| ADAMS STREET 2011 DIRECT FUND LP | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 0 | 579,228 |
| ADAMS STREET 2012 DIRECT FUND LP | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 0 | 581,291 |
| ADAMS STREET CO-INVESTMENT FUND II, L.P. | Adams Street Partners, LLC<br>One North Wacker, Suite 2200<br>Chicago, IL 60606-2823 | 0 | 2,242,452 |

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**EXHIBIT C**

**ADOPTION AGREEMENT**

THIS ADOPTION AGREEMENT (this "***Adoption Agreement'***) is made as of , 20 , by the undersigned (the "***Holder***") pursuant to the terms of that certain Amended and Restated Voting Agreement dated as of June 28, 2012 (the "***Voting Agreement'***), by and among the Company and certain of its Shareholders, as the Voting Agreement may be amended or amended and restated hereafter. Capitalized terms used but not defined in this Adoption Agreement shall have the respective meanings ascribed to such terms in the Voting Agreement. By the execution of this Adoption Agreement, the Holder agrees as follows.

**1.1 ACKNOWLEDGEMENT**. The Holder acknowledges that the Holder is acquiring certain shares of the capital stock of the Company (the "***Stock***")[ or options, warrants or other rights to purchase such Stock (the "***Options***")], for one of the following reasons (Check the correct box):

o as a transferee of Shares from a party in such party's capacity as an "Investor" bound by the Agreement, and after such transfer, the Holder shall be considered an "Investor" and a "Shareholder" for all purposes of the Agreement.

o as a transferee of Shares from a party in such party's capacity as a "Key Holder" bound by the Agreement, and after such transfer, the Holder shall be considered a "Key Holder" and a "Shareholder" for all purposes of the Agreement.

o as a new Investor in accordance with Section 4.8(a) of the Voting Agreement, in which case the Holder will be an "Investor" and a "Shareholder" for all purposes of the Voting Agreement.

o in accordance with Section 4.8(b) of the Voting Agreement, as a new party who is not a new Investor, in which case the Holder will be a "Shareholder" for all purposes of the Voting Agreement.

**1.2 AGREEMENT**. The Holder hereby (a) agrees that the Stock [Options], and any other shares of capital stock or securities required by the Voting Agreement to be bound thereby, shall be bound by and subject to the terms of the Voting Agreement, and (b) adopts the Voting Agreement with the same force and effect as if the Holder were originally a party thereto.

**1.3 NOTICE**. Any notice required or permitted by the Voting Agreement shall be given to the Holder at the address or facsimile number listed below the Holder's signature hereto.

**THE COMPANY:**

**PAYLOCITY CORPORATION**

By: _____
Name: _____
Title: _____

HOLDER: _____

By: _____
Name and Title of Signatory
Address: _____

_____

Facsimile Number: _____

**Exhibit 4.4**

PROMISSORY NOTE

$2,500,000.00 Worcester, Massachusetts
March 9, 2011

**FOR VALUE RECEIVED**, the undersigned, **PAYLOCITY CORPORATION**, an Illinois corporation with its principal place of business at 3850 North Wilke Road, Arlington Heights, Illinois 60004 (the "**Borrower**"), hereby promises to pay to **COMMERCE BANK & TRUST COMPANY**, a Massachusetts banking corporation (the "**Lender**"), OR ORDER, at its office at 386 Main Street, Worcester, Massachusetts 01608, or such other place as the Lender may from time to time specify in writing, the principal sum of **TWO MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS ($2,500,000.00)**, with interest on the unpaid principal until paid at the rate and in the manner hereinafter provided in lawful money of the United States of America.

Interest shall be calculated on the daily unpaid principal balance of the indebtedness evidenced by this Promissory Note computed on the basis of the actual number of days elapsed over a year assumed to have 360 days, provided that interest shall be due for the actual number of days elapsed during each period for which interest is being charged.

The unpaid principal of this Promissory Note from time to time outstanding shall bear interest at a fixed rate of six and one-half percent (6.50%) per annum (the "**Note Rate**").

Interest shall be payable monthly in arrears, beginning on March 31, 2011 and continuing to be due and payable on the last day of each month through the Maturity Date. Beginning on January 31, 2012, principal shall be payable in equal, consecutive monthly payments of Fifty-Two Thousand Eighty-Three and 33/100 Dollars ($52,083.33) each, such payments to continue on the last day of each month thereafter until the entire indebtedness evidenced by this Promissory Note is fully paid. Notwithstanding the foregoing, all principal, interest and other indebtedness evidenced by this Promissory Note and due hereunder, if not sooner paid, shall be due and payable on December 31, 2015 (the "**Maturity Date**").

If a payment of principal or interest due hereunder is not made within ten (10) days of its due date, the Borrower will also pay on demand in addition thereto a late charge equal to five percent (5.00%) of the amount of such payment.

If this Promissory Note or any payment hereunder becomes due on a day which is not a Business Day, the due date of this Promissory Note or payment shall be extended to the next succeeding Business Day, and such extension of time shall be included in computing interest and fees in connection with such payment.

Each payment made hereunder shall be applied first to interest then due on the unpaid balance of principal and then to principal. Overdue payments of principal (whether at stated maturity, by acceleration or otherwise) and, to the extent permitted by law, overdue interest, shall bear interest, compounded monthly and payable on demand in immediately available funds, at a rate per annum (the "**Default Rate**") equal to five percent (5.00%) above the Note Rate, fully floating; provided that if such interest exceeds the maximum amount permitted to be paid under applicable law, then such interest shall be reduced to such maximum permitted amount.



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If, during the three-year period commencing with the date of this Promissory Note, the Borrower shall pay any amount of principal evidenced by this Promissory Note on a date prior to the due date thereof, whether by reason of voluntary prepayment, acceleration, or otherwise, then the Borrower shall pay to the Lender a fee (the "**Prepayment Fee**") as follows:

Year One. If prepayment is made within the one-year period commencing with the date hereof through and including March 9, 2012, a fee in the amount of three percent (3.00%) of the amount of principal prepaid;

Year Two. If prepayment is made within the one-year period commencing with March 9, 2012 through and including March 8, 2013, a fee in the amount of two percent (2.00%) of the amount of principal prepaid; and

Year Three. If prepayment is made within the one-year period commencing with March 9, 2013 through and including March 8, 2014, a fee in the amount of one percent (1.00%) of the amount of principal prepaid.

Commencing on March 9, 2014, the Borrower shall have the privilege of prepaying all or any part of the unpaid principal balance of this Promissory Note at any time without premium or penalty.

The Prepayment Fee shall be paid to the Lender in immediately available funds. The Prepayment Fee is not intended as a penalty, but is to compensate the Lender for the favorable credit terms and other financial accommodations extended to the Borrower by the Lender.

This Promissory Note is issued pursuant to the terms of and is secured as set forth in a Loan and Security Agreement dated as of May 5, 2009, as amended by a First Amendment to Loan Agreement dated as of even date herewith, both by and between the Borrower and the Lender, all of the terms and conditions of which are incorporated herein by reference (as may be amended, supplemented or modified from time to time, collectively, the "**Agreement**"). No reference to the Agreement shall affect or impair the absolute and unconditional obligation of the Borrower to pay the indebtedness due on this Promissory Note as herein provided. The occurrence of an Event of Default under the Agreement shall also constitute an Event of Default hereunder.

Capitalized terms used in this Promissory Note and not otherwise defined in this Promissory Note shall have the meanings ascribed to such terms in the Agreement.

Any deposits or other sums at any time credited by or due from the holder to the Borrower, or any endorser or guarantor hereof and any securities or other property of the Borrower, endorser or guarantor at any time in the possession of the holder may at all times be held and treated as collateral for the payment of this Promissory Note and any and all other liabilities (direct or indirect, absolute or contingent, sole, joint or several, secured or unsecured, due or to become due, now existing or hereafter arising) of any such maker to the holder. The holder may apply or set-off such deposits or other sums against such liabilities at any time.

The Borrower and each guarantor, endorser or other person now or hereafter liable for the payment of any of the indebtedness evidenced by this Promissory Note, severally agree, by



making, guaranteeing or endorsing this Promissory Note or by making any agreement to pay any of the indebtedness evidenced by this Promissory Note, to waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Promissory Note, and consent, on one or more occasions, without notice of further assent (a) to the substitution, exchange or release of the collateral securing this Promissory Note or any part thereof at any time, (b) to the acceptance or release by the holder or holders hereof at any time of any additional collateral or security for or other guarantors of this Promissory Note, (c) to the modification or amendment at any time and from time to time, of this Promissory Note, the Agreement and any other instrument securing this Promissory Note at the request of any person liable hereon, (d) to the granting by the holder hereof of any extension of the time for payment of this Promissory Note or for the performance of the agreements, covenants and conditions contained in this Promissory Note, the Agreement or any other instrument securing this Promissory Note, at the request of any person liable hereon, and (e) to any and all forbearances and indulgences whatsoever. Such consent shall not alter nor diminish the liability of any person.

**THE BORROWER KNOWINGLY AND VOLUNTARILY WAIVES ITS RIGHTS TO A TRIAL BY JURY WITH RESPECT TO ANY SUIT, ACTION OR PROCEEDING (WHETHER BY CLAIM OR COUNTERCLAIM) BROUGHT OR INSTITUTED BY ANY PARTY TO THIS PROMISSORY NOTE, ANY OF THEIR SUCCESSORS AND ASSIGNS, WHICH RELATES DIRECTLY OR INDIRECTLY TO THIS PROMISSORY NOTE, THE AGREEMENT, OR ANY OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION WITH THIS PROMISSORY NOTE, THE AGREEMENT OR ANY OTHER LOAN DOCUMENTS, OR THE RELATIONSHIP BETWEEN OR AMONG THE LENDER, THE BORROWER AND/OR THE GUARANTORS.**

The Borrower agrees to pay all reasonable expenses and costs, including without limitation reasonably attorneys' fees and costs of collection, which may be incurred by the holder hereof in connection with the preparation, administration, enforcement or collection of this Promissory Note or the Agreement or enforcement of the obligations of the Borrower hereunder and thereunder, and any instrument or document executed in connection herewith or in connection with the bankruptcy or insolvency of the Borrower or any guarantor of the obligations herein. If not paid upon demand, such expenses or costs shall bear interest at the Default Rate.

This Promissory Note shall be governed by, and construed in accordance with, the laws of The Commonwealth of Massachusetts. The Borrower agrees that any suit for the enforcement of this Promissory Note may be brought in the courts of The Commonwealth of Massachusetts or any Federal Court sitting therein and consents to the personal and subject matter jurisdiction of such court and to service of process in any such suit being made upon the Borrower by mail at the address specified herein. The Borrower hereby waives unconditionally and voluntarily any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit was brought in an inconvenient court.

This Promissory Note shall be the joint and several obligation of the Borrower and all sureties, guarantors and endorsers, and shall be binding upon them and their respective successors and assigns and each or any of them.



IN WITNESS WHEREOF, the Borrower has caused this Promissory Note to be executed by its duly authorized officer as an instrument under seal as of the day and year first above written.

PAYLOCITY CORPORATION

/s/Jennifer Sprouse
Witness

By /s/Peter McGrail
Name: Peter McGrail
Title: CFO

THE STATE OF ILLINOIS

Cook County, ss

On this 17th day of March, 2011, before me, the undersigned notary public, personally appeared Peter McGrail, the CFO of Paylocity Corporation, proved to me through satisfactory evidence of identification, which was x photographic identification with signature issued by a federal or state governmental agency, x oath or affirmation of a credible witness, x personal knowledge of the undersigned, to be the person whose name is signed on the preceding document, and acknowledged to me that the signed it voluntarily for its stated purpose as the CFO of Paylocity Corporation.

*(official seal)*

/s/Jennifer Sprouse
11/23/14 Notary Public
My commission expires:

REVOLVING LINE OF CREDIT NOTE

$2,500,000.00 Worcester, Massachusetts
March 9, 2011

**FOR VALUE RECEIVED**, the undersigned, **PAYLOCITY CORPORATION**, an Illinois corporation with its principal place of business at 3850 North Wilke Road, Arlington Heights, Illinois 60004 (the "**Borrower**"), hereby promises to pay to **COMMERCE BANK & TRUST COMPANY**, a Massachusetts banking corporation (the "**Lender**"), OR ORDER, at its office at 386 Main Street, Worcester, Massachusetts 01608, or such other place as the Lender may from time to time specify in writing, the principal sum of **TWO MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS ($2,500,000.00)** (or such lesser amount as may have been advanced to the Borrower from time to time hereunder and not repaid), with interest on the unpaid principal until paid at the rate and in the manner hereinafter provided in lawful money of the United States of America.

The unpaid principal of this Revolving Credit Note from time to time outstanding shall bear interest at a rate per annum (the "**Note Rate**") equal to the greater of (a) the aggregate of the Base Rate plus one and one-half percent (1.50%), fully floating, or (b) five and one-half percent (5.50%), such Note Rate to be adjusted from time to time as applicable on the effective date of any change in the Base Rate by the Lender. The "**Base Rate**" shall be that rate of interest set from time to time by the Lender as its Base Rate. Interest hereunder shall be computed on the basis of the actual number of days elapsed over a year assumed to have 360 days.

Interest shall be payable monthly in arrears, beginning one (1) month from the date hereof and continuing on the same day of each succeeding month.

From and after the date hereof, until the Revolving Line of Credit Termination Date, the Borrower shall pay a commitment fee of three-eighths of one percent (0.375%) per annum on the average daily undisbursed amount of this Revolving Line of Credit Note during each quarterly period or portion thereof. This fee shall be payable quarterly, on the last day of each March, June, September and December, commencing on March 31, 2011. The "**Revolving Line of Credit Termination Date**" means December 31, 2013, unless extended, in the Lender's sole discretion, by a writing between the Lender and the Borrower.

Until the earlier of (a) the Revolving Line of Credit Termination Date or (b) the occurrence of an Event of Default, the Borrower may borrow, repay and reborrow the principal hereunder from time to time, provided that the aggregate principal amount at any time outstanding shall not exceed the face amount of this Revolving Credit Note.

The indebtedness evidenced by this Revolving Line of Credit Note may be prepaid before the Revolving Line of Credit Date in whole or in part without penalty or premium.

If a payment of principal or interest due hereunder is not made within ten (10) days of its due date, the Borrower will also pay on demand in addition thereto a late charge equal to five percent (5.00%) of the amount of such payment.

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If this Revolving Line of Credit Note or any payment hereunder becomes due on a day which is not a Business Day, the due date of this Revolving Line of Credit Note or payment shall be extended to the next succeeding Business Day, and such extension of time shall be included in computing interest and fees in connection with such payment.

Each payment made hereunder shall be applied first to interest then due on the unpaid balance of principal and then to principal. Overdue payments of principal (whether at stated maturity, by acceleration or otherwise) and, to the extent permitted by law, overdue interest, shall bear interest, compounded monthly and payable on demand in immediately available funds, at a rate per annum (the "**Default Rate**") equal to five percent (5.00%) above the Note Rate, fully floating; provided that if such interest exceeds the maximum amount permitted to be paid under applicable law, then such interest shall be reduced to such maximum permitted amount.

This Revolving Line of Credit Note is issued pursuant to the terms of and is secured as set forth in a Loan and Security Agreement dated as of dated as of May 5, 2009, as amended by a First Amendment to Loan Agreement dated as of even date herewith, both by and between the Borrower and the Lender, all of the terms and conditions of which are incorporated herein by reference (as may be amended, supplemented or modified from time to time, collectively, the "**Agreement**"). No reference to the Agreement shall affect or impair the absolute and unconditional obligation of the Borrower to pay the indebtedness due on this Revolving Line of Credit Note as herein provided. The occurrence of an Event of Default under the Agreement shall also constitute an Event of Default hereunder.

Capitalized terms used in this Revolving Line of Credit Note and not otherwise defined in this Revolving Line of Credit Note shall have the meanings ascribed to such terms in the Agreement.

Any deposits or other sums at any time credited by or due from the holder to the Borrower, or any endorser or guarantor hereof and any securities or other property of the Borrower, endorser or guarantor at any time in the possession of the holder may at all times be held and treated as collateral for the payment of this Revolving Line of Credit Note and any and all other liabilities (direct or indirect, absolute or contingent, sole, joint or several, secured or unsecured, due or to become due, now existing or hereafter arising) of any such maker to the holder. The holder may apply or set-off such deposits or other sums against such liabilities at any time.

The Borrower and each guarantor, endorser or other person now or hereafter liable for the payment of any of the indebtedness evidenced by this Revolving Line of Credit Note, severally agree, by making, guaranteeing or endorsing this Revolving Line of Credit Note or by making any agreement to pay any of the indebtedness evidenced by this Revolving Line of Credit Note, to waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Revolving Line of Credit Note, and consent, on one or more occasions, without notice of further assent (a) to the substitution, exchange or release of the collateral securing this Revolving Line of Credit Note or any part thereof at any time, (b) to the acceptance or release by the holder or holders hereof at any time of any additional collateral or security for or other guarantors of this Revolving Line of Credit Note, (c) to the modification or amendment at any time and from time to time, of this Revolving Line of Credit Note, the

Agreement and any other instrument securing this Revolving Line of Credit Note at the request of any person liable hereon, (d) to the granting by the holder hereof of any extension of the time for payment of this Revolving Line of Credit Note or for the performance of the agreements, covenants and conditions contained in this Revolving Line of Credit Note, the Agreement or any other instrument securing this Revolving Line of Credit Note, at the request of any person liable hereon, and (e) to any and all forbearances and indulgences whatsoever. Such consent shall not alter nor diminish the liability of any person.

**THE BORROWER KNOWINGLY AND VOLUNTARILY WAIVES ITS RIGHTS TO A TRIAL BY JURY WITH RESPECT TO ANY SUIT, ACTION OR PROCEEDING (WHETHER BY CLAIM OR COUNTERCLAIM) BROUGHT OR INSTITUTED BY ANY PARTY TO THIS REVOLVING LINE OF CREDIT NOTE, ANY OF THEIR SUCCESSORS AND ASSIGNS, WHICH RELATES DIRECTLY OR INDIRECTLY TO THIS REVOLVING LINE OF CREDIT NOTE, THE AGREEMENT, OR ANY OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION WITH THIS REVOLVING LINE OF CREDIT NOTE, THE AGREEMENT OR ANY OTHER LOAN DOCUMENTS, OR THE RELATIONSHIP BETWEEN OR AMONG THE LENDER, THE BORROWER AND/OR THE GUARANTORS.**

The Borrower agrees to pay all reasonable expenses and costs, including without limitation reasonably attorneys' fees and costs of collection, which may be incurred by the holder hereof in connection with the preparation, administration, enforcement or collection of this Revolving Line of Credit Note or the Agreement or enforcement of the obligations of the Borrower hereunder and thereunder, and any instrument or document executed in connection herewith or in connection with the bankruptcy or insolvency of the Borrower or any guarantor of the obligations herein. If not paid upon demand, such expenses or costs shall bear interest at the Default Rate.

This Revolving Line of Credit Note shall be governed by, and construed in accordance with, the laws of The Commonwealth of Massachusetts. The Borrower agrees that any suit for the enforcement of this Revolving Line of Credit Note may be brought in the courts of The Commonwealth of Massachusetts or any Federal Court sitting therein and consents to the personal and subject matter jurisdiction of such court and to service of process in any such suit being made upon the Borrower by mail at the address specified herein. The Borrower hereby waives unconditionally and voluntarily any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit was brought in an inconvenient court.

This Revolving Line of Credit Note shall be the joint and several obligation of the Borrower and all sureties, guarantors and endorsers, and shall be binding upon them and their respective successors and assigns and each or any of them.



IN WITNESS WHEREOF, the Borrower has caused this Revolving Line of Credit Note to be executed by its duly authorized officer as an instrument under seal as of the day and year first above written.

PAYLOCITY CORPORATION

/s/Jennifer Sprouse
Witness

By /s/Peter McGrail
Name: Peter McGrail
Title: CFO

THE STATE OF ILLINOIS

Cook County, ss

On this 17th day of March, 2011, before me, the undersigned notary public, personally appeared Peter McGrail, the CFO of Paylocity Corporation, proved to me through satisfactory evidence of identification, which was x photographic identification with signature issued by a federal or state governmental agency, x oath or affirmation of a credible witness, x personal knowledge of the undersigned, to be the person whose name is signed on the preceding document, and acknowledged to me that he signed it voluntarily for its stated purpose as the CFO of Paylocity Corporation.

*(official seal)*

/s/Jennifer Sprouse
11/23/14 Notary Public
My commission expires:

**Exhibit 4.5.2**

ALLONGE TO REVOLVING LINE OF CREDIT NOTE

THIS ALLONGE TO REVOLVING LINE OF CREDIT NOTE (the "Allonge") made and entered into as of the 27th day of November 2013, between Commerce Bank & Trust Company, a Massachusetts trust company with a principal place of business at 386 Main Street, Worcester, Massachusetts (hereinafter "Lender ") and Paylocity Corporation, 3850 North Wilke Road, Arlington Heights, Illinois 60004 (hereinafter "Borrower ") is firmly affixed to and made a part of a certain Revolving Line of Credit Note of the Borrower payable to the order of the Lender dated as of May 5, 2009 (hereinafter "Revolving Line of Credit Note ") in the original principal amount of Two Million Five Hundred Thousand and 00/100s Dollars ($2,500,000.00), as restated March 9, 2011 (hereinafter "Note").

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Borrower and Lender hereby agree that the Note is hereby amended as follows:

1. As of the date of this Allonge, the principal amount of the Note will be increased from Two Million Five Hundred Thousand and 00/100s Dollars ($2,500,000.00) to Three Million Five Hundred Thousand and 00/100s Dollars (S3,500,000.00).

2. The stated maturity date of the Note is hereby extended to December 31, 2015 so that, if not sooner paid, all outstanding principal of Note and accrued and unpaid interest thereon shall be paid to the Lender on December 31, 2015.

3. All references in the Note and any other Instrument or document delivered in connection therewith to the "Note" or "Revolving Line of Credit Note" shall be deemed to mean the Note as amended by this Allonge.

As hereby amended, the Note is hereby ratified and confirmed in all respects, and all terms and provisions of the Note not amended hereby shall remain in full force and effect.

WITNESS THE EXECUTION HEREOF, as an instrument under seal as of the date first set forth above.

**Paylocity Corporation**

/s/Ian Rogers
Ian Rogers, Witness

/s/Peter McGrail
Peter McGrail, Chief Financial Officer

**Guarantors**

**Paylocity Management Holdings, LLC**

/s/Ian Rogers
Ian Rogers, Witness

/s/Steven I. Sarowitz
Steven I. Sarowitz, Manager

/s/Ian Rogers
Ian Rogers, Witness

/s/Steven I. Sarowitz
Steven I. Sarowitz, Individually

**Commerce Bank & Trust Company**

/s/David J. Costello
David J. Costello, Senior Vice President

**Exhibit 10.1**

**LOAN AND SECURITY AGREEMENT**

This Loan and Security Agreement ("the Agreement") made as of the 5th day of May, 2009 is by and between PAYLOCITY CORPORATION, an Illinois corporation with its principal place of business at 3850 North Wilke Road, Arlington Heights, Illinois 60004 (the "Borrower") and COMMERCE BANK & TRUST COMPANY, a Massachusetts banking corporation with its office at 386 Main Street, Worcester, Massachusetts 01608 (the "Lender"). The Lender and the Borrower agree as follows:

1. The Loans.

1.1 Upon the terms and subject to the conditions set forth herein, the Lender will advance money to or for the benefit of the Borrower (the "Loans") in a manner satisfactory to the Lender as follows:

1.1.1 up to the face amount of a Promissory Note of the Borrower to the Lender dated of even date herewith in the amount of TWO MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS ($2,500,000.00) (as may be amended, restated or renewed from time to time, the "Term Note"); and

1.1.2 up to the face amount of a Revolving Line of Credit Note of the Borrower to the Lender dated of even date herewith in the amount of TWO MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS ($2,500,000.00) (as may be amended, restated or renewed from time to time, the "Revolving Line of Credit Note") (the Term Note and the Revolving Line of Credit Note are collectively referred to hereafter as the "Notes"), the terms and conditions of each of which are hereby incorporated in this Agreement. The Borrower will repay to the Lender all Obligations as defined in this Agreement.

1.2 Whether or not the entire face amounts of the Notes have been advanced to or for the benefit of the Borrower, the Lender may at any time make additional advances to (a) discharge encumbrances at any time levied or placed upon the Collateral, and/or pay expenses for maintenance and preservation of the Collateral; and (b) pay for fees, recording, examination of title, preparation of Financing Instruments, and any expenses incurred in the application for and completion of the Loans including those the Lender may incur in protecting or enforcing its rights under the Financing Instruments; and each such additional advance will be a part of the Obligations and subject to the terms and conditions of this Agreement.

1.3 The proceeds of the Term Note will be used to pay off existing indebtedness ofthe Borrower to the Lender and to fund the Borrower's operation of its business. The proceeds of the Revolving Line of Credit Note will be used to fund planned software development investments.

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2. Definitions. As used in this Agreement, each of the following terms has the meaning hereinafter specified:

2.1 "Accounts", "Chattel Paper", "Collateral", "Commercial Tort Claims","Contracts", "Deposit Accounts", "Documents", "Electronic Chattel Paper", "Equipment", "Financial Assets", "Fixtures", "General Intangibles", "Goods", "Instruments", "Inventory", "Investment Property", "Letter-of-Credit-Rights", "Payment Intangibles", "Promissory Notes", "Supporting Obligations" and "Tangible Chattel Paper" shall have the same respective meanings as are given to those terms in the UCC as presently in effect in The Commonwealth of Massachusetts, if not otherwise defined in this Agreement.

2.2 "Arlington Heights Property" means property leased by the Borrower and located at 3850 North Wilke Road, Arlington Heights, Illinois, consisting of 45,427 square feet of office space.

2.3 "Business Day" means a day other than a Saturday, a Sunday, or a day on which commercial banks in Worcester, Massachusetts are authorized to close.

2.4 "Collateral" has the meaning set forth in Section 4 of this Agreement

2.5 "Debt Service Coverage Ratio" means, at any time, the ratio having as its numerator (i) Net Income, plus (ii) depreciation and amortization expenses incurred by the Borrower, less (iii) dividends and distributions paid by the Borrower, less (iv) payments made by the Borrower with respect to Subordinated Indebtedness, and having as its denominator the sum of (i) interest expense of the Borrower, plus (ii) CMLTD (current maturity of long term indebtedness) of the Borrower. For the purposes of this definition, the terms "depreciation", "amortization" and "CMLTD" shall have the meanings ascribed to them in accordance with GAAP. Debt Service Coverage Ratio shall be measured as of the end of each fiscal quarter of the Borrower for the period covering the previous four fiscal quarters.

2.6 "EBITDA" means for any applicable fiscal period earnings before interest, taxes, depreciation and amortization, determined in accordance with GAAP.

2.7 "Financing Instruments" means collectively this Agreement, the Notes, the Guaranties, the Landlord's Waiver, the Lease Assignment and the Pledge Agreements, all as may be amended, renewed or supplemented from time to time.

2.8 "GAAP" means generally accepted accounting principles applied consistently, with such changes or modifications thereto as may be approved in writing by the Lender.

2.9 "Guarantors" means each of Steven I. Sarowitz and Daniel L. Miller.

2.10 "Guaranties" means collectively the Unlimited Guaranty of Steven I. Sarowitz, the Limited Guaranty of Daniel L. Miller and the Unlimited Guaranty of Paylocity Management Holdings, LLC.

2.11 "Landlord" means 3850 Wilke L.L.C., the owner of the Arlington Heights Property.

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2.12 "Landlord's Waiver" means the Landlord's Consent and Waiver duly authorized and executed by each of the Borrower, the Lender and the Landlord with respect to the Arlington Heights Property.

2.13 “Lease Assignment” means the Assignment of Lessee’s Interest in Lease duly authorized and executed by the Borrower and the Lender, consented to by the Landlord, with respect to the Arlington Heights Property.

2.14 “Net Income” means the net income of the Borrower, calculated in accordance with GAAP, before deduction of income taxes and required payments of interest, excluding interest and dividend income or extraordinary or non-recurring items of gain or loss.

2.15 “Obligations” is intended to be used in its most comprehensive sense and means the obligation of the Borrower or, as the context requires, each Guarantor to the Lender of whatever kind and description, whether direct or indirect, absolute or contingent, primary or secondary, joint or several, due or to become due, or held or to be held by, the Lender for its own account or as agent for another or others, whether created directly or acquired by assignment or otherwise and howsoever evidenced, whether now existing or hereafter incurred or acquired and whether by way of loan, guaranty, discount, letter of credit, lease or otherwise, including without limitation, the following obligations:

2.15.1 To pay the principal of, and interest on, the Notes in accordance with the terms thereof and to satisfy all other liabilities to the Lender, whether hereunder or otherwise, whether now existing or hereafter incurred, matured or unrnatured, direct or contingent, joint or several, including any extensions, modifications, renewals thereof and substitutions therefor.

2.15.2 To repay to the Lender all amounts advanced by the Lender hereunder or otherwise on behalf of the Borrower or any Guarantor, including, but without limitation, advances for principal or interest payments to prior secured parties, mortgagees, or lienors, or for taxes, levies, insurance, rent, or repairs to, or maintenance or storage of, any of the Collateral;

2.15.3 To perform and observe all covenants, agreements and undertakings of the Borrower or any Guarantor pursuant to the terms and conditions of this Agreement, the Notes, the Financing Instruments, or any other agreement or instrument now or hereafter delivered to the Lender by the Borrower or any Guarantor;

2.15.4 All obligations under any interest rate swap agreement, foreign exchange contract, any cap, floor or hedging agreement or other similar agreement, or other financial agreement or arrangement designed to protect the Borrower against fluctuations in any interest rate charged by the Lender under the Notes or otherwise, including any obligations of the Borrower arising out of or in connection with any Automated Clearing House (“ACH”) Agreement relating to the processing of ACH transactions, together with all fees, expenses, charges and other amounts owing by or chargeable to the Borrower under any ACH Agreement;

2.15.5 All obligations to reimburse the Lender, on demand, in connection with overdrafts and other amounts due to the Lender under any existing or future agreements relating to cash management services; and

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2.15.6 All obligations to reimburse the Lender, on demand, for all of the Lender’s expenses and costs, including without limitation the reasonable fees and expenses of its counsel, in connection with the preparation, administration, amendment, modification, or enforcement of this Agreement and the documents required hereunder or related hereto, including, without limitation, any proceeding brought, or threatened, to enforce payment of any of the obligations referred to in the foregoing subparagraphs 2.15.1 through 2.15.5.

2.16 “Person” shall mean an individual, a corporation, a partnership, a joint stock association, a business trust or a government or any agency or subdivision thereof, and shall include the singular and the plural.

3. Security. As security for the Borrower’s repayment of the Obligations, the Borrower hereby grants to the Lender a continuing security interest in the “Collateral” as hereinafter defined. The Collateral, together with all other property of the Borrower of any kind held by the Lender, shall stand as one general, continuing collateral security for all Obligations and may be retained by the Lender until all Obligations have been satisfied in full.

The Borrower hereby assigns, transfers, and sets over to the Lender all of its right, title, and interest in and to, and grants the Lender a lien on and a security interest in, all amounts that may be owing, from time to time, by the Lender to the Borrower in any capacity, including, but without limitation, any balance or share belonging to the Borrower, or any deposit or other account with the Lender, which lien and security interest shall be independent of, and in addition to, any right of set-off that the Lender has under Section 8.3 or otherwise.

As further security for the prompt satisfaction of all of the Obligations, the Borrower hereby assigns to the Lender all of its right, title and interest in and to, and grants the Lender a lien upon and a continuing security interest in, all of the following, wherever located, whether now owned or hereafter acquired, together with all substitutions and replacements therefor, accessions thereto, and proceeds (including, but without limitation, insurance proceeds) and products thereof:

3.1 All Inventory;

3.2 All Accounts, Contracts, accounts receivable, contract rights, and Chattel Paper, regardless whether they constitute proceeds of other Collateral;

3.3 All Investment Property, securities entitlements and Financial Assets, and all General Intangibles (including Payment Intangibles), regardless whether they constitute proceeds of other Collateral, including, without limitation, all the Borrower’s rights (which the Lender may exercise or not as it in its sole discretion may determine) to acquire or obtain Goods and/or services with respect to the manufacture, processing, storage, sale, shipment, delivery or installation of any of the Borrower’s Inventory or other Collateral; all Payment Intangibles; and including any and all right, title and interest of the Borrower in, to or under any and all licenses, franchises, permits and approvals obtained or required in connection with the Borrower’s business operations;

3.4 All products of and accessions to any of the Collateral;

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3.5 All liens, guaranties, securities, rights, remedies and privileges pertaining to any of the Collateral, including the right of stoppage in transit;

3.6 All obligations owing to the Borrower of every kind and nature, and all choses in action, all Commercial Tort Claims, all Letter-of-Credit Rights and all Supporting Obligations;

3.7 All tax refunds of every kind and nature to which the Borrower is now or hereafter may become entitled no matter however arising, including, without limitation, loss carry back refunds;

3.8 All Intellectual Property, goodwill, trade secrets, computer programs, source codes, licenses, customer lists, trade names, copyrights, trademarks and patents, all domain names, internet web sites and other rights;

3.9 All Chattel Paper (including Electronic Chattel Paper and Tangible Chattel Paper), Documents and Instruments, including Promissory Notes (whether negotiable or nonnegotiable, and regardless of their being attached to Chattel Paper) and all money, cash and coins;

3.10 All Equipment, including without limitation machinery, furniture, motor vehicles, Fixtures and all other goods used in the conduct of the business of the Borrower,

3.11 All insurance policies and all proceeds of Collateral of every kind and nature and in whatever form, including without limitation both cash and non-cash proceeds resulting or arising from the rendering of services by the Borrower or the sale or other disposition by the Borrower of the Inventory or other Collateral and including all insurance proceeds;

3.12 All books and records, magnetic tapes, electronic data, computer records and discs relating to the conduct of the Borrower's business including, without in any way limiting the generality of the foregoing, those relating to its Accounts;

3.13 All Deposit Accounts maintained by the Borrower with any bank, trust company, credit union, investment firm or fund, or any similar institution or organization; and

3.14 All property of the Borrower in the possession of the Lender.

4. Representations. The Borrower has:

4.1 taken all steps required by any applicable law to make this Agreement and the Financing Instruments to which it is a party its legal, valid and binding obligations enforceable in accordance with its and their respective terms; and neither the execution and delivery, nor the performance of this Agreement and the Financing Instruments is in violation of any law, its declaration and by-laws or other organizational documents, or any other agreement to which it is a party or by which it or any of its assets is or may be bound;

4.2 good and clear record and marketable title to the Collateral free of all encumbrances except those which have been approved by the Lender in writing; and made no

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agreement of any kind with any Person, the performance of which by such Person would give rise to a lien on the Collateral, except for arrangements with contractors;

4.3 provided the Lender with such financial statements and projections as the Lender has requested; filed all required tax returns and paid all applicable taxes which are due; and no contingent liabilities or obligations for taxes or long-term commitments except as reflected in the financial statements and the Notes thereto provided pursuant to this Agreement;

4.4 no suits or proceedings pending against it in any court or before or by any governmental body that materially and adversely affect its operation, financial condition, property or business prospects and is not in default under any order or process of any court or governmental body.

5. Covenants. For so long as the Loans shall remain outstanding, the Borrower covenants and agrees:

5.1 to duly and punctually perform or cause to be performed each part of the Obligations and to not permit the acceleration of any indebtedness owed by it to any person other than the Lender;

5.2 to carry such forms of insurance, in such amounts as the Lender may reasonably require, and deliver promptly to the Lender the original policies and/or certificates for any or all such insurance;

5.3 not to create, incur, assume or suffer to exist any mortgage, pledge, security interest, lien or other charge or encumbrance upon any of its assets or property unless the Lender has given the Borrower prior express written consent to do so;

5.4 to (i) duly observe and comply with all applicable laws, (ii) maintain in full force and effect all licenses and permits necessary in any material respect for the proper conduct of its business, and (iii) keep its properties and assets in good repair and insured in such amounts as the Borrower deems adequate in its reasonable judgment;

5.5 to pay all fees, costs and expenses, including attorneys' fees, incurred or paid by the Lender in connection with the preparation, negotiation and closing of the documentation evidencing the facilities described herein or in connection with the administration, enforcement or amendment of such documentation and such facilities;

5.6 to execute and deliver such additional instruments and take such further action as the Lender may reasonably request to effect the purpose of this Agreement and the Notes;

5.7 to submit or cause to be submitted, as appropriate, to the Lender (i) within thirty (30) days of the end of each fiscal quarter in each fiscal year of the Borrower, Borrower's financial statements with respect to such quarter including balance sheet, income statement and statement of cash flows prepared by the Borrower's chief financial officer, (ii) within one hundred twenty (120) days of the end of each fiscal year of the Borrower, Borrower's audited financial statements with respect to such year including balance sheet, income statement and statement of cash flows containing the unqualified opinion of certified public accountants

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satisfactory to the Lender, (iii) within one hundred twenty (120) days of the end of each fiscal year, copies of its federal and state tax returns, as filed with the appropriate taxing authorities, (iv) on or before April 30th of each year, (x) a personal financial statement in form satisfactory to the Lender with respect to each Guarantor and (y) copies of each Guarantor's federal and state tax returns, as filed with the appropriate taxing authorities and (v) such other financial statements and information as the Lender may reasonably request;

5.8 to give the Lender immediate notice of the institution of any suit or proceeding involving it that might materially and adversely affect its operations, financial condition, property ort111,ints prospects;

5.9 not to amend its Articles of Organization or By-Laws in a manner which would adversely affect the Lender's interest in the Collateral without the Lender's prior written consent;

5.10 to maintain a depository account with the Lender for client funds and channel greater than forty percent (40%) of all client fund transactions through the account;

5.11 to maintain a Debt Service Coverage Ratio at all times equal to or greater than 1.25:1.00, to be measured beginning with the fiscal quarter ending December 31, 2010 and quarterly thereafter;

5.12 to achieve EB1I DA as follows:

5.12.1 of not less than ($1,000,000.00) for the fiscal year ending June 30, 2009,

5.12.2 of not less than $0 for the fiscal year ending June 30, 2010, and

5.12.3 of not less than $2,000,000.00 for the fiscal year ending June 30, 2011 and for each fiscal year thereafter; and

5.13 not to permit to exist any indebtedness except for (i) trade indebtedness incurred in the ordinary course of business; (ii) indebtedness to the Lender; (iii) indebtedness for equipment purchases or capital leases which in each case do not exceed $25,000.00; or (iv) indebtedness to shareholders provided such indebtedness is subordinated in payment priority to indebtedness to the Lender by written agreement satisfactory to the Lender.

6. Events of Default. With respect to any part of the Obligations which is not stated to be payable on demand, and notwithstanding provision to the contrary in an instrument evidencing any Obligation, each of the following occurrences shall be an "Event of Default" under this Agreement:

6.1 failure to observe or perform any of the covenants, agreements or conditions contained in this Agreement which failure is not cured within ten (10) days after the Lender sends the Borrower written notice thereof;

6.2 any statement, certificate, report, financial statement, representation or warranty made or furnished by the Borrower in connection with the execution and delivery of this Agreement or any of the Financing Instruments or in compliance with the provisions of this

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Agreement or any of the Financing Instruments proves to have been false or erroneous in any material respect;

6.3 commencement of any case or action by the Borrower or by any other Person against the Borrower seeking relief under (a) the Bankruptcy Code of the United States, (which in the case of an involuntary petition, is not dismissed within sixty (60) days) or (b) any other law seeking appointment of a receiver, liquidator, assignee, trustee, custodian or other similar official of the Borrower or of any substantial part of its assets;

6.4 failure of the Borrower, generally, to pay its debts, or the taking of possession, custody or control of a substantial part of the Borrower's assets by any other Person;

6.5 loss by the Borrower of a contract for its services providing annual revenue, reduced by the projected annual revenue of new contracts entered into during the period, that in any fiscal month exceeds five percent (5%) of the previous fiscal year's revenue, or in any fiscal quarter exceeds ten percent (10%) of the previous fiscal year's revenue; or

6.6 failure of the Borrower to pay the principal of or the interest on any indebtedness of the Borrower other than the Obligations for a period sufficient to permit the acceleration of the maturity of such indebtedness.

7. Remedies. Upon the occurrence of any Event of Default, the Lender may refuse to make further advances of principal under the Notes, and may exercise any of its rights and remedies under any of the Financing Instruments.

So long as any Event of Default shall have occurred and is continuing:

7.1 the Lender may, at its option, without notice or demand, cause all of the Obligations to become immediately due and payable and take immediate possession of the Collateral, and for that purpose the Lender Party may, so far as the Borrower can give authority therefor, enter upon any premises on which any of the Collateral is situated and remove the same therefrom or remain on such premises and in possession of such Collateral for purposes of conducting a sale or enforcing the rights of the Lender;

7.2 the Borrower will, upon demand, assemble the Collateral and make it available to the Lender at a place and time designated by the Lender that is reasonably convenient to both parties;

7.3 the Lender may collect and receive all income and proceeds in respect of the Collateral and exercise all voting and corporate rights of the Borrower with respect thereto, all without liability except to account for property actually received (but the Lender shall have no duty to exercise any of the aforesaid rights, privileges or options and shall not be responsible for any failure to do so or delay in so doing);

7.4 the Lender may sell, lease or otherwise dispose of the Collateral at a public or private sale, with or without having the Collateral at the place of sale, and upon such terms and in such manner as the Lender may determine, and the Lender may purchase all or any portion of the Collateral at any such sale. Unless Collateral threatens to decline rapidly in value or is of the

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type customarily sold on a recognized market, the Lender shall send to the Borrower prior written notice (which, if given within five days of any sale, shall be deemed to be reasonable) of the time and place of any public sale of the Collateral or of the time after which any private sale or other disposition thereof is made. The Borrower agrees that upon any such sale the Collateral shall be held by the purchaser free from all claims or rights of every kind and nature, including any equity of redemption or similar rights, and all such equity of redemption and similar rights are hereby expressly waived and released by the Borrower. In the event any consent, approval or authorization of any governmental agency is necessary to effectuate any such sale, the Borrower shall execute all applications or other instruments as may be required; and

7.5 in any jurisdiction where the enforcement of its rights hereunder is sought, the Lender shall have, in addition to all other rights and remedies, the rights and remedies of a secured party under the Uniform Commercial Code.

Prior to any disposition of Collateral pursuant to this Agreement the Lender may, at its option, cause any of the Collateral to be repaired or reconditioned (but not upgraded unless mutually agreed) in such manner and to such extent as to make it saleable.

The Lender is hereby granted a license or other right to use, without charge, the Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks and advertising matter, or any relating to the Collateral, in completing production of, advertising for sale and selling of any Collateral; and the Borrower's rights under all licenses and any franchise agreements shall inure to the Lender's benefit.

The Lender shall be entitled to retain and to apply the proceeds of any disposition of the Collateral, first, to its reasonable expenses of retaking, holding, protecting and maintaining, and preparing for disposition and disposing of, the Collateral, including attorneys' fees and other legal expenses incurred by it in connection therewith; and second, to the payment of the Obligations in such order of priority as the Lender shall determine. Any surplus remaining after such application shall be paid to the Borrower or to whomever may be legally entitled thereto, provided that in no event shall the Borrower be credited with any part of the proceeds of the disposition of the Collateral until such proceeds shall have been received in cash by the Lender. The Borrower shall remain liable for any deficiency.

8. Miscellaneous.

8.1 All agreements, representations and warranties made by the Borrower in this Agreement, in the Financing Instruments or in any certificate or other document delivered to the Lender in connection herewith shall survive the execution and delivery of this Agreement. All the terms and provisions of this Agreement shall be binding upon and inure to and be enforceable by and against the parties hereto and their respective successors and assigns.

8.2 This Agreement constitutes the entire Agreement between the parties, supersedes all prior agreements and understandings whether written or oral, and may be modified only by an agreement in writing, executed by both parties. This Agreement may be executed in two or more counterparts, each of which shall constitute an original, but such counterparts together shall constitute one and the same instrument. A carbon, photographic or other reproduction of this

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Agreement or of a financing statement executed to perfect the security interest created herein may be filed as a financing statement.

8.3 The Lender may, and is hereby authorized by the Borrower, at any time and from time to time, to the fullest extent permitted by applicable Laws, without advance notice to the Borrower (any such notice being expressly waived by the Borrower), set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and any other indebtedness at any time owing by the Lender to, or for the credit or the account of, the Borrower against any or all of the Obligations of the Borrower or any Guarantor, now or hereafter existing, whether or not such Obligations have matured and irrespective of whether the Lender has exercised any other rights that it has or may have with respect to such Obligations, including without limitation any acceleration rights. The Lender agrees promptly to notify the Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Lender under this Section 8.3 are in addition to the other rights and remedies (including, without limitation, other rights of set-off) which the Lender may have.

8.4 The Borrower hereby appoints the Lender as its attorney-in-fact and grants the Lender full power, after the occurrence of an Event of Default, to do all things and acts necessary to implement and execute any powers or rights granted to the Lender under this Agreement, and the Borrower releases the Lender, its officers, employees and agents, from any liability arising from any act or acts hereunder or in furtherance hereof.

8.5 This Agreement is governed by the laws of The Commonwealth of Massachusetts without regard to its conflicts of laws provisions. The invalidity or unenforceability of any term or provision of this Agreement will not affect the validity or enforceability of the remaining terms or provisions of this Agreement. The Borrower agrees that any suit for the enforcement of this Agreement may be brought in the courts of The Commonwealth of Massachusetts or any federal court sitting therein and consents to the non-exclusive jurisdiction of such court and to service of process in any such suit being made upon the Borrower by mail at the address set forth herein (unless the Borrower has by five days written notice to the Lender specified another address). The Borrower hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient court.

8.6 All notices or demands hereunder to the parties hereto will be sufficient if made in writing and sent by certified mail, return receipt requested, addressed to the parties at their respective addresses set forth herein.

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IN WITNESS WHEREOF, the Borrower and Lender have executed this Agreement as an instrument under seal as of the date first written above.

COMMERCE BANK & TRUST COMPANY

/s/Alyssa B. Burke
Witness

By: /s/David J. Costello
Name: David J. Costello
Title: Senior Vice President

PAYLOCITY CORPORATION

/s/Steve Sarowitz
Witness

By: /s/Dan Miller
Name: Dan Miller
Title: CFO

**Exhibit 10.1.1**

**FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT**

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "**First Amendment**") dated as of March 9, 2011 is by and between **PAYLOCITY CORPORATION**, an Illinois corporation with its principal place of business at 3850 North Wilke Road, Arlington Heights, Illinois 60004 (the "**Borrower**") and **COMMERCE BANK & TRUST COMPANY**, a Massachusetts banking corporation with its office at 386 Main Street, Worcester, Massachusetts 01608 (the "**Lender**").

WITNESSETH:

WHEREAS, the Borrower and the Lender entered into a Loan and Security Agreement dated as of May 5, 2009 (the "**Agreement**"); and

WHEREAS, the Borrower has requested that the Lender restructure the Loans; and

WHEREAS, the Lender is willing to restructure the Loans and make certain amendments to the Agreement and the Loan Documents, subject to the terms and conditions set forth in this First Amendment.

NOW, THEREFORE, the parties hereto, each in consideration of the acts and promises of the other and for other good and valuable consideration paid, the receipt and sufficiency of which is hereby acknowledged by each, agree as follows:

1. Amendments to the Agreement.

a. The definitions of the "**Notes**" in Sections 1.1.1 and 1.1.2 of the Agreement are restated to read as follows:

"1.1.1 up to the face amount of a Promissory Note of the Borrower to the Lender dated March 9, 2011 in the amount of TWO MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS ($2,500,000.00) (as may be amended, restated or renewed from time to time, the "**Term Note**"); and

1.1.2 up to the face amount of a Revolving Line of Credit Note of the Borrower to the Lender dated March 9, 2011 in the amount of TWO MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS ($2,500,000.00) (as may be amended, restated or renewed from time to time, the "**Revolving Line of Credit Note**") (the Term Note and the Revolving Line of Credit Note are collectively referred to hereafter as the "**Notes**"),"

b. The definition of "**Debt Service Coverage Ratio**" in Section 2.5 is amended to add non-cash stock compensation expense to the numerator.

c. Section 5.12 of the Agreement, with respect to the EBITDA covenant, is restated to read as follows:

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"5.12 To achieve a sum of EBITDA plus non-cash stock compensation expense of not less than $500,000.00 for the fiscal year ending June 30, 2011 and for each fiscal year thereafter; and"

d. Provided the Borrower and the Guarantors have performed all of their respective obligations to the Lender and there exists no Event of Default under the Agreement, the Lender will increase the Revolving Line of Credit Note from $2,500,000.00 to $3,500,000.00 as of September 9, 2012, and the Borrower will then execute and deliver to the Lender its new Revolving Line of Credit Note in that amount.

2. Representations and Warranties. The Borrower represents and warrants that:

a. no Event of Default pursuant to the Agreement has occurred and is continuing, and no event has occurred and is continuing that, but for the giving of notice or the passage of time or both, would constitute an Event of Default; and

b. each of the representations and warranties contained in Section 4 of the Agreement is true and correct in all material respects as if made on and as of the date hereof except to the extent any such representation and warranty pertains to a specific date other than the date hereof.

3. Ratification of Obligations. All Obligations of the Borrower to the Lender are hereby ratified and confirmed.

4. Ratification by Guarantors. Each of Steven I. Sarowitz, Daniel L. Miller and Paylocity Management Holdings, LLC (collectively the "**Guarantors**") hereby consents to the foregoing and acknowledges that his or its Guaranty dated as of May 5, 2009 with respect to all obligations of the Borrower to the Lender (a) remains in all respects valid, binding and enforceable, (b) is not subject to counterclaim, defenses or offset, and (c) is hereby ratified and confirmed.

5. Acknowledgements. Each of the Borrower and the Guarantors hereby acknowledges and agrees that it or he has no claim, cause of action, defense, right of setoff, right of recoupment or counterclaim against the Lender with respect to the Agreement, any other Financing Instruments or the Obligations as of the date hereof.

6. Bringdown. The Borrower hereby certifies to the Lender that:

a. since May 5, 2009 to and including the date hereof, there have been no amendments to or changes in the By-Laws or Articles of Organization of the Borrower as delivered to the Lender on or about May 5, 2009;

b. nothing has occurred which would lead the Secretary of the State of Illinois to refuse to issue certificates of legal existence and good standing as of the date of this First Amendment;

c. all taxes required to be paid or withheld and deposited by the Borrower as of the date of this First Amendment have been paid or withheld;

d. except as provided on Exhibit A attached hereto, there has been no change in the directors, officers and shareholders (or their holdings) of the Borrower since May 5, 2009 to and including the date of this First Amendment; and

e. the resolutions adopted by the Borrower and attached to a Secretary's Certificate dated as of and delivered to the Lender on or about May 5, 2009 have not been rescinded or amended, remain in full force and effect and are effective with respect to this First Amendment.

7. Capitalized Terms. All capitalized terms not otherwise defined herein shall have the same meanings set forth in the Agreement.

8. Entire Agreement. The Agreement, as hereby amended, shall remain in full force and effect pursuant to its terms and provisions as set forth herein.

IN WITNESS WHEREOF, the parties hereto executed this First Amendment to Loan Agreement as an instrument under seal as of the date first written above.

COMMERCE BANK & TRUST COMPANY

Witness

By: /s/ David J. Costello
Name: David J. Costello
Title: Senior Vice President

PAYLOCITY CORPORATION

/s/Dan L. Miller
Witness

By: /s/Peter McGrail
Its CFO

/s/Peter McGrail
Witness

/s/Steven I. Sarowitz
Steven I. Sarowitz

/s/Peter McGrail
Witness

/s/Dan L. Miller
Daniel L. Miller

PAYLOCITY MANAGEMENT HOLDINGS, LLC

/s/Peter McGrail
Witness

By: /s/Steven I. Sarowitz
Its Manager



**EXHIBIT A**

Steve Sarowitz, a shareholder of Paylocity Management Holdings LLC, sold 1,689,050 Common Shares representing a small portion of his holdings to Adams Street Partners for $2,500,000 during December 2010.

**Exhibit 10.2**

**INDEMNIFICATION AGREEMENT**

This Indemnification Agreement, dated , 2013, is made between Paylocity Holding Corporation, a Delaware corporation (the "***Company***"), and (the "***Indemnitee***").

RECITALS

A. The Company desires to attract and retain the services of talented and experienced individuals, such as Indemnitee, to serve as directors and officers of the Company and its subsidiaries and wishes to indemnify its directors and officers to the maximum extent permitted by law;

B. The Company and Indemnitee recognize that corporate litigation in general has subjected directors and officers to expensive litigation risks;

C. Section 145 of the General Corporation Law of Delaware, under which the Company is organized ("***Section 145***"), empowers the Company to indemnify its directors and officers by agreement and to indemnify persons who serve, at the request of the Company, as the directors and officers of other corporations or enterprises, and expressly provides that the indemnification provided by Section 145 is not exclusive;

D. Section 145(g) allows for the purchase of management liability ("***D&O***") insurance by the Company, which in theory can cover asserted liabilities without regard to whether they are indemnifiable or not;

E. Individuals considering service or presently serving expect to be extended market terms of indemnification commensurate with their position, and that entities such as Company will endeavor to maintain appropriate D&O insurance; and

F. In order to induce Indemnitee to serve or continue to serve as a director or officer of the Company and/or one or more subsidiaries of the Company, the Company and Indemnitee enter into this Agreement.

AGREEMENT

NOW, THEREFORE, Indemnitee and the Company hereby agree as follows:

1. Definitions. As used in this Agreement:

(a) "***Agent***" means any person who is or was a director, officer, employee or other agent of the Company or a subsidiary of the Company; or is or was serving at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company as a director, officer, employee or agent of another foreign or domestic corporation, limited liability company, employee benefit plan, nonprofit entity, partnership, joint venture, trust or other enterprise; or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the Company or a subsidiary of the Company, or was a director, officer, employee or agent of another enterprise at the request of, for the convenience of, or to represent the interests of such predecessor corporation.

(b) "***Board***" means the Board of Directors of the Company.



(c) A "***Change in Control***" shall be deemed to have occurred if (i) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing a majority of the total voting power represented by the Company's then outstanding voting securities, (ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board, together with any new directors whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination was previously so approved, cease for any reason to constitute a majority of the Board, (iii) the stockholders of the Company approve a merger or consolidation or a sale of all or substantially all of the Company's assets with or to another entity, other than a merger, consolidation or asset sale that would result in the holders of the Company's outstanding voting securities immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least a majority of the total voting power represented by the voting securities of the Company or such surviving or successor entity outstanding immediately thereafter, or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company.

(d) "***Expenses***" shall include all out-of-pocket costs of any type or nature whatsoever (including, without limitation, all attorneys' fees and related disbursements), actually and reasonably incurred by Indemnitee in connection with either the investigation, defense or appeal of a Proceeding or establishing or enforcing a right to indemnification under this Agreement, or Section 145 or otherwise; provided, however, that "Expenses" shall not include any judgments, fines, ERISA excise taxes or penalties, or amounts paid in settlement of a Proceeding.

(e) "***Independent Counsel***" means a law firm, or a partner (or, if applicable, member) of such a law firm, that has at least ten years of experience in relevant matters of corporation law and neither currently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party or (ii) any other party to or witness in the proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(f) "***Proceeding***" means any threatened, pending, or completed action, claim, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether formal or informal, civil, criminal, administrative, or investigative, including any such investigation or proceeding instituted by or on behalf of the Corporation or its Board of Directors, in which Indemnitee is or reasonably may be involved as a party or target, that is associated with Indemnitee's being an Agent of the Corporation.

(g) "***Subsidiary***" means any corporation of which more than 50% of the outstanding voting securities is owned directly or indirectly by the Company, by the Company and one or more other subsidiaries, or by one or more other subsidiaries.

2. Agreement to Serve. Indemnitee agrees to serve and/or continue to serve as an Agent of the Company, at its will (or under separate agreement, if such agreement exists), in the capacity Indemnitee currently serves as an Agent of the Company, so long as Indemnitee is duly appointed or elected and qualified in accordance with the applicable provisions of the Bylaws of the Company or any



subsidiary of the Company or until such time as Indemnitee tenders his or her resignation in writing; provided, however, that nothing contained in this Agreement is intended to create any right to continued employment or other service by Indemnitee.

3. Liability Insurance.

(a) Maintenance of D&O Insurance. The Company hereby covenants and agrees that, so long as Indemnitee shall continue to serve as an Agent of the Company and thereafter so long as Indemnitee shall be subject to any possible Proceeding by reason of the fact that Indemnitee was an Agent of the Company, the Company, subject to Section 3(c), shall promptly obtain and maintain in full force and effect directors' and officers' liability insurance ("***D&O Insurance***") in reasonable amounts from established and reputable insurers, as more fully described below. In the event of a Change in Control, the Company shall, as set forth in Section (c) below, either: i) maintain such D&O Insurance for six years; or ii) purchase a six year tail for such D&O Insurance.

(b) Rights and Benefits. In all policies of D&O Insurance, Indemnitee shall qualify as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's independent directors (as defined by the insurer) if Indemnitee is such an independent director; of the Company's non-independent directors if Indemnitee is not an independent director; of the Company's officers if Indemnitee is an officer of the Company; or of the Company's key employees, if Indemnitee is not a director or officer but is a key employee.

(c) Limitation on Required Maintenance of D&O Insurance. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain D&O Insurance at all, or of any type, terms, or amount, if the Company determines in good faith that: such insurance is not reasonably available; the premium costs for such insurance are disproportionate to the amount of coverage provided; the coverage provided by such insurance is limited so as to provide an insufficient or unreasonable benefit; Indemnitee is covered by similar insurance maintained by a subsidiary of the Company; or the Company is to be acquired and a tail policy of reasonable terms and duration can be purchased for pre-closing acts or omissions by Indemnitee.

4. Mandatory Indemnification. Subject to the terms of this Agreement:

(a) Third Party Actions. If Indemnitee is a person who was or is a party or is threatened to be made a party to any Proceeding (other than an action by or in the right of the Company) by reason of the fact that Indemnitee is or was an Agent of the Company, or by reason of anything done or not done by Indemnitee in any such capacity, the Company shall indemnify Indemnitee against all Expenses and liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes and penalties, and amounts paid in settlement) actually and reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of such Proceeding, provided Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or Proceeding, had no reasonable cause to believe his or her conduct was unlawful.

(b) Derivative Actions. If Indemnitee is a person who was or is a party or is threatened to be made a party to any Proceeding by or in the right of the Company by reason of the fact that Indemnitee is or was an Agent of the Company, or by reason of anything done or not done by Indemnitee in any such capacity, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of such Proceeding, provided Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification



under this Section 4(b) shall be made in respect to any claim, issue or matter as to which Indemnitee shall have been finally adjudged to be liable to the Company by a court of competent jurisdiction unless and only to the extent that the Delaware Court of Chancery or the court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such amounts which the Delaware Court of Chancery or such other court shall deem proper.

(c) Actions where Indemnitee is Deceased. If Indemnitee is a person who was or is a party or is threatened to be made a party to any Proceeding by reason of the fact that Indemnitee is or was an Agent of the Company, or by reason of anything done or not done by Indemnitee in any such capacity, and if, prior to, during the pendency of or after completion of such Proceeding Indemnitee is deceased, the Company shall indemnify Indemnitee's heirs, executors and administrators against all Expenses and liabilities of any type whatsoever to the extent Indemnitee would have been entitled to indemnification pursuant to this Agreement were Indemnitee still alive.

(d) Certain Terminations. The termination of any Proceeding or of any claim, issue, or matter therein by judgment, order, settlement, or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal action or Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(e) Limitations. Notwithstanding the foregoing provisions of Sections 4(a), 4(b), 4(c) and 4(d) hereof, but subject to the exception set forth in Section 14 which shall control, the Company shall not be obligated to indemnify the Indemnitee for Expenses or liabilities of any type whatsoever for which payment (and the Company's indemnification obligations under this Agreement shall be reduced by such payment) is actually made to or on behalf of Indemnitee, by the Company or otherwise, under a corporate insurance policy, or under a valid and enforceable indemnity clause, right, by-law, or agreement; and, in the event the Company has previously made a payment to Indemnitee for an Expense or liability of any type whatsoever for which payment is actually made to or on behalf of the Indemnitee under an insurance policy, or under a valid and enforceable indemnity clause, by-law or agreement, Indemnitee shall return to the Company the amounts subsequently received by the Indemnitee from such other source of indemnification.

(f) Witness. In the event that Indemnitee is not a party or threatened to be made a party to a Proceeding, but is subpoenaed (or given a written request to be interviewed by a government authority) in such a Proceeding by reason of the fact that the Indemnitee is or was an Agent of the Company, or by reason of anything witnessed or allegedly witnessed by the Indemnitee in that capacity, the Company shall indemnify the Indemnitee against all actually and reasonably incurred out of pocket costs of any type or nature whatsoever (including, without limitation, all attorneys' fees and related disbursements), actually and reasonably incurred by Indemnitee in responding to such subpoena or written request for an interview. As a condition to this right, Indemnitee must provide notice of such subpoena or request to the Company within 14 days of Indemnitee's actual receipt thereof (this notice condition shall control over Section 7(a), which shall not apply to this section 4(f)).

5. Indemnification for Expenses in a Proceeding in Which Indemnitee is Wholly or Partly Successful.

(a) Successful Defense. Notwithstanding any other provisions of this Agreement, to the extent Indemnitee has been successful, on the merits or otherwise, in defense of any Proceeding



(including, without limitation, an action by or in the right of the Company) in which Indemnitee was a party by reason of the fact that Indemnitee is or was an Agent of the Company at any time, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by or on behalf of Indemnitee in connection with the investigation, defense or appeal of such Proceeding.

(b) Partially Successful Defense. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee is a party to any Proceeding (including, without limitation, an action by or in the right of the Company) in which Indemnitee was a party by reason of the fact that Indemnitee is or was an Agent of the Company at any time and is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by or on behalf of Indemnitee in connection with each successfully resolved claim, issue or matter.

(c) Dismissal. For purposes of this section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

(d) Contribution. If the indemnification provided in this Agreement is unavailable and may not be paid to Indemnitee, then to the extent allowed by law, in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnitee on the other hand from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of Company on the one hand and of Indemnitee on the other in connection with the events which resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of Indemnitee on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. The Company agrees that it would not be just and equitable if contribution pursuant to this section were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

6. Mandatory Advancement of Expenses.

(a) Subject to the terms of this Agreement and following notice pursuant to Section 7(a) below, the Company shall advance all Expenses reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any Proceeding to which Indemnitee is a party or is threatened to be made a party by reason of the fact that Indemnitee is or was an Agent of the Company (unless there has been a final determination that establishes that Indemnitee is not entitled to indemnification for such Expenses) upon receipt satisfactory documentation supporting such Expenses. By execution of this Agreement, Indemnitee agrees to repay the amount advanced only in the event and to the extent that it shall ultimately be determined that Indemnitee is not entitled to indemnification by the Company to the extent set forth in this agreement and under Delaware law. Such advances are intended to be an obligation of the Company to Indemnitee hereunder and shall in no event be deemed to be a personal loan. Such advancement of Expenses shall otherwise be unsecured and without regard to Indemnitee's ability to repay. The advances to be made hereunder shall be paid by the Company to Indemnitee within 30 days following delivery of a written request therefore by Indemnitee to the Company, along with such documentation and information as is reasonably available to the claimant and is reasonably necessary to determine whether and to what extent the claimant is entitled to advancement



(which shall include without limitation detailed invoices for legal services). The Company shall discharge its advancement duty by, at its option, (a) paying such Expenses on behalf of Indemnitee, (b) advancing to Indemnitee funds in an amount sufficient to pay such Expenses, or (c) reimbursing Indemnitee for Expenses already paid by Indemnitee. In the event that the Company fails to pay Expenses as incurred by Indemnitee as required by this paragraph, Indemnitee may seek mandatory injunctive relief (including without limitation specific performance) from any court having jurisdiction to require the Company to pay Expenses as set forth in this paragraph. If Indemnitee seeks mandatory injunctive relief pursuant to this paragraph, it shall not be a defense to enforcement of the Company's obligations set forth in this paragraph that Indemnitee has an adequate remedy at law for damages.

(b) Undertakings. Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement, which constitutes an undertaking whereby Indemnitee promises to repay any amounts advances in the event there shall be a final determination that Indemnitee is not entitled to indemnification by the Company.

7. Notice and Other Indemnification Procedures.

(a) Notice by Indemnitee. Promptly after receipt by Indemnitee of notice of the commencement of or the threat of commencement of any Proceeding, Indemnitee shall, if Indemnitee believes that indemnification with respect thereto may be sought from the Company under this Agreement, notify the Company in writing of the commencement or threat of commencement thereof. Notwithstanding the foregoing, any failure of Indemnitee to provide such a notice to the Company, or to provide such a notice in a timely fashion, shall not relieve the Company of any liability that it may have to Indemnitee unless, and to the extent that, such failure actually and materially prejudices the interests of the Company.

(b) Insurance. If the Company receives notice pursuant to Section 7(a) hereof of the commencement of a Proceeding that may be covered under D&O Insurance then in effect, the Company shall give prompt notice of the commencement of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies.

(c) Defense. In the event the Company shall be obligated to pay the Expenses of any Proceeding against Indemnitee, the Company shall be entitled to assume the defense of such Proceeding, with counsel selected by the Company and approved by Indemnitee (which approval shall not be unreasonably withheld), upon the delivery to Indemnitee of written notice of the Company's election so to do. After delivery of such notice, and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same Proceeding, provided that (i) Indemnitee shall have the right to employ his or her own counsel in any such Proceeding at Indemnitee's expense; and (ii) Indemnitee shall have the right to employ his or her own counsel in any such Proceeding at the Company's expense if (A) the Company has authorized the employment of counsel by Indemnitee at the expense of the Company; (B) Indemnitee shall have reasonably concluded based on the written advice of Indemnitee's legal counsel that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense; or (C) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding. In addition to all the requirements above, if the Company has D&O Insurance, or other insurance, with a panel counsel requirement that may cover the matter for which indemnity is claimed by Indemnitee, then Indemnitee shall use such panel counsel or other counsel approved by the insurers, unless there is an actual conflict of interest posed by representation by all such counsel, or unless and to the extent Company waives such requirement in writing. Indemnitee and its counsel shall provide reasonable cooperation with such insurer on request of the Company.



8. Right to Indemnification.

(a) Right to Indemnification. In the event that Section 5(a) is inapplicable, the Company shall indemnify Indemnitee pursuant to this Agreement unless, and except to the extent that, it shall have been determined by one of the methods listed in Section 8(b) that Indemnitee has not met the applicable standard of conduct required to entitle Indemnitee to such indemnification.

(b) Determination of Right to Indemnification. A determination of Indemnitee's right to indemnification under this Section 8 shall be made at the election of the Board by (i) a majority vote of directors who are not parties to the Proceeding for which indemnification is being sought, even though less than a quorum, or by a committee consisting of directors who are not parties to the Proceeding for which indemnification is being sought, who, even though less than a quorum, have been designated by a majority vote of the disinterested directors, or (ii) if there are no such disinterested directors or if the disinterested directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee. However, in the event there has been a Change in Control, then the determination shall, at Indemnitee's sole option, be made by Independent Counsel as in (b)(ii), above, with Indemnitee choosing the Independent Counsel subject to Company's consent, such consent not to be unreasonably withheld.

(c) Submission for Decision. As soon as practicable, and in no event later than 30 days after Indemnitee's written request for indemnification, the Board shall select the method for determining Indemnitee's right to indemnification. Indemnitee shall cooperate with the person or persons or entity making such determination with respect to Indemnitee's right to indemnification, including providing to such person, persons or entity, upon reasonable advance request, any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel or member of the Board shall act reasonably and in good faith in making a determination regarding Indemnitee's entitlement to indemnification under this Agreement.

(d) Application to Court. If (i) a claim for indemnification or advancement of Expenses is denied, in whole or in part, (ii) no disposition of such claim is made by the Company within 60 days after the request therefore, (iii) the advancement of Expenses is not timely made pursuant to Section 6 of this Agreement or (iv) payment of indemnification is not made pursuant to Section 5 of this Agreement, Indemnitee shall have the right to apply to the Delaware Court of Chancery, the court in which the Proceeding is or was pending, or any other court of competent jurisdiction, for the purpose of enforcing Indemnitee's right to indemnification (including the advancement of Expenses) pursuant to this Agreement.

(e) Expenses Related to the Enforcement or Interpretation of this Agreement. The Company shall indemnify Indemnitee against all reasonable Expenses incurred by Indemnitee in connection with any hearing or proceeding under this Section 8 involving Indemnitee, and against all reasonable Expenses incurred by Indemnitee in connection with any other proceeding between the Company and Indemnitee involving the interpretation or enforcement of the rights of Indemnitee under this Agreement, if and to the extent Indemnitee is successful.

(f) In no event shall Indemnitee's right to indemnification (apart from advancement of Expenses) be determined prior to a final adjudication in the Proceeding at issue if the Proceeding is both ongoing, and of the nature to have a final adjudication.



(g) In any proceeding to determine Indemnitee's right to indemnification or advancement, Indemnitee shall be presumed to be entitled to indemnification or advancement, with the burden of proof on the Company to prove, by a preponderance of the evidence (or higher standard if required by relevant law) that Indemnitee is not so entitled.

(h) Indemnitee shall be fully indemnified for those matters where, in the performance of his duties for the Company, he relied in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any of the Company's officers or employees, or committees of the board of directors, or by any other person as to matters Indemnitee reasonably believed were within such other person's professional or expert competence and who was selected with reasonable care by or on behalf of the Company.

(i) The knowledge or actions, or failure to act, of any director, officer, agent, or employee of the Corporation, or the Corporation itself, shall not be imputed to Indemnitee for purposes of determining any rights hereunder.

9. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated:

(a) Claims Initiated by Indemnitee. To indemnify or advance Expenses to Indemnitee with respect to Proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, with a reasonable allocation where appropriate, unless (i) such indemnification is expressly required to be made by law, (ii) the Proceeding was authorized by the Board, (iii) such indemnification is provided by the Company, in its sole discretion, pursuant to the

powers vested in the Company under the General Corporation Law of Delaware or (iv) the Proceeding is brought pursuant to Section 8 specifically to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 145 in advance of a final determination, in which case 8(e)'s fees-on-fees provision shall control;

(b) Fees on Fees. To indemnify Indemnitee for any Expenses incurred by Indemnitee with respect to any Proceeding instituted by Indemnitee to enforce or interpret this Agreement, to the extent Indemnitee is not successful in such a Proceeding;

(c) Unauthorized Settlements. To indemnify Indemnitee under this Agreement for any amounts paid in settlement of a Proceeding unless the Company consents to such settlement, which consent shall not be unreasonably withheld;

(d) Claims Under Section 16(b). To indemnify Indemnitee for Expenses associated with any Proceeding related to, or the payment of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of state statutory law or common law (provided, however, that the Company must advance Expenses for such matters as otherwise permissible under this Agreement); or

(e) Payments Contrary to Law. To indemnify or advance Expenses to Indemnitee for which payment is prohibited by applicable law.

10. Non-Exclusivity. The provisions for indemnification and advancement of Expenses set forth in this Agreement shall not be deemed exclusive of any other rights which Indemnitee may have under any provision of law, the Company's Certificate of Incorporation or Bylaws, the vote of the



Company's stockholders or disinterested directors, other agreements, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while occupying Indemnitee's position as an Agent of the Company. However, this Agreement replaces any prior contractual indemnification agreement between Indemnitee and Company (including when operating under a different name). Indemnitee's rights hereunder shall continue after Indemnitee has ceased acting as an Agent of the Company and shall inure to the benefit of the heirs, executors and administrators of Indemnitee.

11. Permitted Defenses. It shall be a defense to any action for which a claim for indemnification is made under this Agreement (other than an action brought to enforce a claim for Expenses pursuant to Section 6 hereof, provided that the required documents have been tendered to the Company) that Indemnitee is not entitled to indemnification because of the limitations set forth in Sections 4 and 9 hereof. Neither the failure of the Company (including its Board of Directors) or an Independent Counsel to have made a determination prior to the commencement of such enforcement action that indemnification of Indemnitee is proper in the circumstances, nor an actual determination by the Company (including its Board of Directors) or an Independent Counsel that such indemnification is improper, shall be a defense to the action or create a presumption that Indemnitee is not entitled to indemnification under this Agreement or otherwise.

12. Subrogation. In the event the Company is obligated to make a payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery under any corporate insurance policy or any other indemnity agreement covering Indemnitee, who shall execute all documents reasonably required and take all action that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights (provided that the Company pays Indemnitee's costs and expenses of doing so), including without limitation by assigning all such rights to the Company or its designee to the extent of such indemnification or advancement of Expenses. The Company's obligation to indemnify or advance expenses under this Agreement shall be reduced by any amount Indemnitee has collected from such other source, and in the event that Company has fully paid such indemnity or expenses, Indemnitee shall return to the Company any amounts subsequently received from such other source of indemnification. With regard to Fund Indemnitors, however, Section 13 shall control over this section.

13. Primacy of Indemnification. The Company hereby acknowledges that Indemnitee may have certain rights to indemnification, advancement of expenses or liability insurance provided by a third-party investor and certain of its affiliates (collectively, the "Fund Indemnitors"). The Company hereby agrees that (i) it is the indemnitor of first resort, *i.e.*, its obligations to Indemnitee under this Agreement and any indemnity provisions set forth in its Certificate of Incorporation, Bylaws or elsewhere (collectively, "Indemnity Arrangements") are primary, and any obligation of the Fund Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by Indemnitee is secondary and excess, (ii) it shall advance the full amount of expenses incurred by Indemnitee and shall be liable for the full amount of all expenses, judgments, penalties, fines and amounts paid in settlement by or on behalf of Indemnitee, to the extent legally permitted and as required by any Indemnity Arrangement, without regard to any rights Indemnitee may have against the Fund Indemnitors, and (iii) it irrevocably waives, relinquishes and releases the Fund Indemnitors from any claims against the Fund Indemnitors for contribution, subrogation or any other recovery relating to any Indemnity Arrangement. The Company further agrees that no advancement or indemnification payment by any Fund Indemnitor on behalf of Indemnitee shall affect the foregoing, and the Fund Indemnitors shall be subrogated to the extent of such advancement or payment to all of the rights of recovery of Indemnitee against the Company. The Company and Indemnitee agree that the Fund Indemnitors are express third party beneficiaries of the terms of this Section 13. The Company, on its own behalf and on behalf of its insurers to the extent allowed by the policies, waives subrogation rights against Indemnitee.



14. Survival of Rights.

(a) All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is an Agent of the Company and shall continue thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed Proceeding by reason of the fact that Indemnitee was serving in the capacity referred to herein.

(b) The Company shall require any successor to the Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

15. Interpretation of Agreement. It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification to Indemnitee to the fullest extent permitted by law, including those circumstances in which indemnification would otherwise be discretionary.

16. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of the Agreement (including, without limitation, all portions of any paragraphs of this

Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

17. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless it is in a writing signed by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver. In the event of any change after the date of this Agreement in any applicable law that expands the right of a Delaware corporation to indemnify a member of an Agent in the same capacity as Indemnitee, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits afforded by such change. Any narrowing change in any applicable law, however, shall have no effect on the rights and obligations under this Agreement other than as may be required by law.

18. Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (a) upon delivery if delivered by hand to the party to whom such notice or other communication shall have been directed, (b) if mailed by certified or registered mail with postage prepaid, return receipt requested, on the third business day after the date on which it is so mailed, (c) one business day after the business day of deposit with a nationally recognized overnight delivery service, specifying next day delivery, with written verification of receipt, or (d) on the same day as delivered by confirmed facsimile transmission if delivered during business hours or on the next successive business day if delivered by confirmed facsimile transmission after business hours. Addresses for notice to either party shall be as shown on the signature page of this Agreement, or to such other address as may have been furnished by either party in the manner set forth above.

19. Governing Law. This Agreement shall be governed exclusively by and construed according to the laws of the State of Delaware as applied to contracts between Delaware residents entered



into and to be performed entirely within Delaware. This Agreement is intended to be an agreement of the type contemplated by Section 145(f) of the General Corporation Law of Delaware.

20. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforcement is sought needs to be produced to evidence the existence of this Agreement.

The parties hereto have entered into this Indemnification Agreement, including the undertaking contained herein, effective as of the date first above written.

| **Indemnitee:** | **Paylocity Holding Corporation:** |
|---|---|
| _____ | By: _____ |
| Name: | Name: _____ |
| Address: _____ | Title: _____ |
| _____ | |

**2008 PAYLOCITY CORPORATION**
**EQUITY INCENTIVE PLAN**

## I. INTRODUCTION

1.1 **Purposes**. The purposes of the 2008 Equity Incentive Plan (this "**Plan**") of Paylocity Corporation, an Illinois corporation (the "**Company**"), are (i) to align the interests of the Company's stockholders and the recipients of awards under this Plan by providing a means to increase the proprietary interest of such recipients in the Company's growth and success, (ii) to advance the interests of the Company by increasing its ability to attract and retain highly competent officers, other employees, directors, consultants, agents, and independent contractors and (iii) to motivate such persons to act in the long-term best interests of the Company and its stockholders.

1.2 **Certain Definitions**.

"**Affiliate**" or "**Affiliates**" shall have the meaning set forth in Section 1.4.

"**Agreement**" shall mean the written agreement(s) evidencing an award under this Plan between the Company and the recipient of such award.

"**Board**" shall mean the Board of Directors of the Company.

"**Bonus Stock**" shall mean shares of Common Stock which are not subject to a Restriction Period or Performance Measures.

"**Bonus Stock Award**" shall mean an award of Bonus Stock under this Plan.

"**Cause**" with respect to the holder of an award, shall mean, unless otherwise defined by the Committee or in an Agreement or in a written employment, services or other agreement between the holder of an award and the Company, (i) the holder's refusal to perform, or disregard of, the holder's duties or responsibilities, or of specific directives of the officer or other executive or directors of the Company to whom the holder reports; (ii) the holder's willful, reckless or negligent commission of act(s) or omission(s) which have resulted in or are likely to result in, a loss to, or damage to the reputation of, the Company or any of its Affiliates, or that compromise the safety of any employee or other person; (iii) the holder's act of fraud, embezzlement or theft in connection with the holder's duties to the Company or in the course of his or her employment, or the holder's commission of a felony or any crime involving dishonesty or moral turpitude; (iv) the holder's material violation of the Company's policies or standards or of any statutory or common law duty of loyalty to the Company; or (v) any material breach by the holder of any noncompetition, nonsolicitation, confidentiality or other restrictive covenants relating to current or former service to the Company or any of its Affiliates to which the holder is subject.

"**Change in Control**", unless otherwise defined by the Committee or in an Agreement or in a written employment, services or other agreement between the holder of an award and the Company, shall mean:

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(i) the acquisition by any person, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then outstanding equity interests in the Company or the combined voting power of the Company's then outstanding voting securities; or

(ii) the consummation of a reorganization, merger or consolidation of the Company or the sale of all or substantially all of the assets of the Company, in each case with respect to which persons who held equity interests in the Company immediately prior to such reorganization, merger, consolidation or sale do not immediately thereafter own, directly or indirectly, 50% or more of the combined voting power of the then outstanding securities of the surviving or resulting corporation or other entity; provided, however, that any such transaction consummated in connection with, or for the purpose of facilitating, an IPO shall not constitute a Change in Control hereunder;

provided further, however, that a Change in Control shall not include a transaction undertaken for the principal purpose of restructuring the capital of the Company, including, but not limited to, reincorporating the Company in a different jurisdiction, converting the Company to a limited liability company or creating a holding company.

Notwithstanding the foregoing, a Change in Control shall not occur for purposes of this Plan unless such Change in Control constitutes a "change in control event" under Section 409A of the Code and the regulations thereunder.

"**Code**" shall mean the Internal Revenue Code of 1986, as amended.

"**Committee**" shall mean the committee designated by the Board to administer the Plan. If no committee is so designated by the Board, the Board shall serve as the Committee under this Plan.

"**Common Stock**" shall mean the common stock, par value $0.001 per share, of the Company.

"**Company**" shall have the meaning set forth in Section 1.1.

"**Disability**", unless otherwise defined by the Committee or in an Agreement or in a written employment, services or other agreement between the holder of an award and the Company, means a mental or physical impairment of the holder of an award that is expected to result in death or that has lasted or is expected to last for a continuous period of 12 months or more and that causes the holder of the award to be unable to perform his or her material duties for the Company and to be engaged in any substantial gainful activity, in each case as determined by the Company's chief human resources officer or other person performing that function, or in the case of directors and executive officers, the Board, each of whose determination shall be conclusive and binding.

"**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended.

"**Fair Market Value**" shall mean, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or any national market system, including without limitation the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of the Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sale is reported) as quoted on such exchange or system for the last market trading day prior to the day of determination, as reported in *The Wall Street Journal* or such other source as the Committee deems reliable.

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination.

(iii) In the absence of an established market for the Common Stock, its Fair Market Value shall be determined by the Board based on a valuation prepared on an annual or more frequent basis by an established and reputable independent appraisal firm selected by the Board, and shall be the price at which the Common Stock would change hands between a willing buyer and a willing seller both being under no compulsion to buy or sell and both having reasonable possession of all the relevant facts. Such valuation shall be conducted in accordance with the guidelines promulgated by Revenue Ruling 59—60 issued by the Internal Revenue Service and regulations (proposed or final) by the Department of Labor.

"**Incentive Stock Option**" shall mean an option to purchase shares of Common Stock that meets the requirements of Section 422 of the Code, or any successor provision, and which is intended by the Committee to constitute an Incentive Stock Option.

"**IPO**" shall mean an initial public offering of Common Stock pursuant to an effective registration statement under the Securities Act.

"**Non-Statutory Stock Option**" shall mean an option to purchase shares of Common Stock which is not an Incentive Stock Option.

"**Performance Measures**" shall mean the criteria and objectives, established by the Committee, which shall be satisfied or met (i) as a condition to the grant or exercisability of all or a portion of an option to purchase shares of Common Stock, or (ii) during the applicable Restriction Period or Performance Period as a condition to the vesting of the holder's interest, in the case of a Restricted Stock Award, of the shares of Common Stock subject to such award, or, in the case of a Restricted Stock Unit Award, to the holder's receipt of the shares of Common Stock subject to such award or of payment with respect to such award.

"**Performance Period**" shall mean any period designated by the Committee during which the Performance Measures applicable to an award shall be measured.

"**Restricted Stock**" shall mean shares of Common Stock which are subject to a Restriction Period and which may, in addition thereto, be contingent upon the attainment of specified Performance Measures within a specified Performance Period.



"**Restricted Stock Unit**" shall mean a right to receive one share of Common Stock or, in lieu thereof, the Fair Market Value of such share of Common Stock in cash, which shall be contingent upon the expiration of a specified Restriction Period and which may, in addition thereto, be contingent upon the attainment of specified Performance Measures within a specified Performance Period.

"**Restricted Stock Unit Award**" shall mean an award of Restricted Stock Units under this Plan.

"**Restriction Period**" shall mean any period designated by the Committee during which (i) the Common Stock subject to a Restricted Stock Award may not be sold, transferred, assigned, pledged, hypothecated or otherwise encumbered or disposed of, except as provided in this Plan or the Agreement relating to such award, or (ii) the conditions to vesting applicable to a Restricted Stock Unit Award shall remain in effect.

"**Securities Act**" shall mean the Securities Act of 1933, as amended.

"**Stock Award**" shall mean a Restricted Stock Award, Restricted Stock Unit Award or Bonus Stock Award.

"**Tax Date**" shall have the meaning set forth in Section 4.5.

"**Ten Percent Holder**" shall have the meaning set forth in Section 2.1(a).

1.3 **Administration**. This Plan shall be administered by the Committee. Any one or a combination of the following awards may be made under this Plan to eligible persons: (i) options to purchase shares of Common Stock in the form of Incentive Stock Options or Non-Statutory Stock Options and (ii) Stock Awards in the form of Restricted Stock, Restricted Stock Units or Bonus Stock. The Committee shall, subject to the terms of this Plan, select eligible persons for participation in this Plan and determine the form, amount and timing of each award to such persons and, if applicable, the number of shares of Common Stock subject to such an award, the exercise price associated with the award, the time and conditions of exercise or settlement of the award and all other terms and conditions of the award, including, without limitation, the form of the Agreement evidencing the award. The Committee may, in its sole discretion and for any reason at any time, take action such that (i) any or all outstanding options shall become exercisable in part or in full, (ii) all or a portion of the Restriction Period applicable to any outstanding Restricted Stock Award or Restricted Stock Unit Award shall lapse, (iii) all or a portion of the Performance Period applicable to any outstanding award shall lapse and (iv) the Performance Measures applicable to any outstanding award (if any) shall be deemed to be satisfied at the maximum or any other level. The Committee shall, subject to the terms of this Plan, interpret this Plan and the application thereof, establish rules and regulations it deems necessary or desirable for the administration of this Plan and may impose, incidental to the grant of an award, conditions with respect to the award, such as limiting competitive employment or other activities. All such interpretations, rules, regulations and conditions shall be final, binding and conclusive.



The Committee may delegate some or all of its power and authority hereunder to the Board, the Chairman, the Chief Executive Officer or such other executive officer of the Company as the Committee deems appropriate.

No member of the Board or Committee, and none of the Chairman, the Chief Executive Officer or any other executive officer to whom the Committee delegates any of its power and authority hereunder, shall be liable for any act, omission, interpretation, construction or determination made in connection with this Plan in good faith, and the members of the Board and the Committee and the Chairman, the Chief Executive Officer and each other executive officer shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the fullest extent permitted by law, except as otherwise may be provided in the Company's Articles of Incorporation and/or By-laws, and/or under any directors' and officers' liability insurance that may be in effect from time to time.

A majority of the Committee shall constitute a quorum. The acts of the Committee shall be either (i) acts of a majority of the members of the Committee present at any meeting at which a quorum is present or (ii) acts approved in writing by all of the members of the Committee without a meeting.

1.4 **Eligibility**. Participants in this Plan shall consist of such officers and other employees, persons expected to become officers and other employees, directors, consultants, independent contractors and agents of the Company or its parents or subsidiaries from time to time (individually an "**Affiliate**" and collectively the "**Affiliates**") as the Committee in its sole discretion may select from time to time. For purposes of this Plan, references to employment shall also mean an agency or independent contractor relationship and references to employment by the Company shall also mean employment by an Affiliate. The Committee's selection of a person to participate in this Plan at any time shall not require the Committee to select such person to participate in this Plan at any other time.

1.5 **Shares Available**. Subject to adjustment as provided in Section 4.7, an aggregate of 1,491,750 shares of Common Stock shall be available for grants of awards under this Plan, reduced by the aggregate number of shares of Common Stock which become subject to outstanding awards under the Plan and increased by the aggregate number of shares of Common Stock purchased by the Company pursuant to the Investor Rights Agreement entered into by and among the Company, Paylocity Management Holdings, LLC, the Key Executives named therein and the Investors named therein dated as of May 14, 2008 (the "**Investor Rights Agreement**"); provided, however, that if the purchase of shares of Common Stock by the Company pursuant to the Investor Rights Agreement is conditioned upon the granting of awards pursuant to the Plan to one or more specified eligible persons (whether by position or job function), then any awards issued to any such specified eligible person shall be deemed to have been made (i) from the shares purchased or purchasable pursuant to the Investor Rights Agreement before any awards may be made from any of the shares of Common Stock otherwise reserved pursuant to the Plan and (ii) first from the shares which have the lowest purchase price per share for the Company pursuant to the Investor Rights Agreement. To the extent that shares of Common Stock subject to an outstanding award are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or by reason of the delivery or withholding of shares of



Common Stock to pay all or a portion of the purchase price of an award, if any, or to satisfy all or a portion of the tax withholding obligations relating to an award, then such shares of Common Stock shall again be available under this Plan. Notwithstanding the foregoing, the maximum number of shares that may be issued upon the exercise of Incentive Stock Options shall equal an aggregate of 1,491,750 shares of Common Stock, subject to adjustment as provided in Section 4.7.

Shares of Common Stock shall be made available from authorized and unissued shares of Common Stock, or authorized and issued shares of Common Stock reacquired and held as treasury shares or otherwise or a combination thereof.

## II. **STOCK OPTIONS**

2.1 **Stock Options**. The Committee may, in its discretion, grant options to purchase shares of Common Stock to such eligible persons as may be selected by the Committee. Each option, or portion thereof, that is not an Incentive Stock Option shall be a Non-Statutory Stock Option. An Incentive Stock Option may not be granted to any person who is not an employee of the Company or any parent or subsidiary (as defined in Section 424 of the Code). Each Incentive Stock Option shall be granted within ten years of the date this Plan is adopted by the Board. To the extent that the aggregate Fair Market Value (determined as of the date of grant) of shares of Common Stock with respect to which options designated as Incentive Stock Options are exercisable for the first time by a participant during any calendar year (under this Plan or any other plan of the Company or any parent or subsidiary as defined in Section 424 of the Code) exceeds the amount established by the Code, such options shall constitute Non-Statutory Stock Options.

Options shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee deems advisable:

(a) Number of Shares and Purchase Price. The number of shares of Common Stock subject to an option and the purchase price per share of Common Stock purchasable upon exercise of the option shall be determined by the Committee; provided, however, that the purchase price per share of Common Stock purchasable upon exercise of an option shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date of grant of such option; provided further, that if an Incentive Stock Option shall be granted to any person who, at the time such option is granted, owns capital stock possessing more than ten percent of the total combined voting power of all classes of capital stock of the Company (or of any parent or subsidiary as defined in Section 424 of the Code) (a "**Ten Percent Holder**"), the purchase price per share of Common Stock shall be the price (currently 110% of Fair Market Value) required by the Code in order to constitute an Incentive Stock Option.

(b) Exercise Period and Exercisability. The period during which an option may be exercised shall be determined by the Committee; provided, however, that no option shall be exercisable later than ten years after its date of grant; and provided further, that if an Incentive Stock Option shall be granted to a Ten Percent Holder, such



option shall not be exercisable later than five years after its date of grant. The Committee may, in its discretion, establish Performance Measures which shall be satisfied or met as a condition to the grant of an option or to the exercisability of all or a portion of an option. The Committee shall determine whether an option shall become exercisable in cumulative or non-cumulative installments and in part or in full at any time. An exercisable option, or portion thereof, may be exercised only with respect to whole shares of Common Stock (which may include Restricted Stock, to the extent set forth in the Agreement).

(c) Method of Exercise. An option may be exercised (i) by giving written notice to the Company specifying the number of whole shares of Common Stock to be purchased and by accompanying such notice with payment therefor in full (or by arranging for such payment to the Company's satisfaction) either (A) in cash, (B) by delivery (either actual delivery or by attestation procedures established by the Company) of shares of Common

Stock having an aggregate Fair Market Value, determined as of the date of exercise, equal to the aggregate purchase price payable by reason of such exercise, (C) authorizing the Company to withhold whole shares of Common Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the date of exercise, equal to the amount necessary to satisfy such obligation, provided that the Committee determines that such withholding of shares does not cause the Company to recognize an increased compensation expense under applicable accounting principles, (D) in cash by a broker-dealer acceptable to the Company to whom the optionee has submitted an irrevocable notice of exercise (if the Common Stock is then publicly traded) or (E) a combination of (A), (B), (C) and (D), in each case to the extent set forth in the Agreement relating to the option and (ii) by executing such documents as the Company may reasonably request. The Company shall have sole discretion to disapprove of an election pursuant to any of clauses (i)(B) through (E). Any fraction of a share of Common Stock which would be required to pay such purchase price shall be disregarded and the remaining amount due shall be paid in cash by the optionee. No certificate representing Common Stock shall be delivered until the full purchase price therefor and any withholding taxes thereon, as described in Section 4.5, have been paid (or arrangements made for such payment to the Company's satisfaction).

2.2 **Termination of Employment or Service**. Subject to the requirements of the Code, all of the terms relating to the exercise, cancellation or other disposition of an option upon a termination of employment with or service to the Company of the recipient of such option, whether due to Disability, death or under any other circumstances, shall be determined by the Committee. Notwithstanding anything herein to the contrary, a change in status from employee to consultant, or from consultant to employee, shall not be a termination of employment or services under the Plan.

## III. STOCK AWARDS

3.1 **Stock Awards**. The Committee may, in its discretion, grant Stock Awards to such eligible persons as may be selected by the Committee. The Agreement relating to a Stock Award shall specify whether the Stock Award is a Bonus Stock Award, Restricted Stock Award or Restricted Stock Unit Award.



3.2 **Terms of Bonus Stock Awards**. The number of shares of Common Stock subject to a Bonus Stock Award shall be determined by the Committee. Bonus Stock Awards shall not be subject to any Restriction Periods or Performance Measures. Upon the grant of a Bonus Stock Award, subject to the Company's right to require payment of any taxes in accordance with Section 4.5, a certificate or certificates evidencing ownership of the requisite number of shares of Common Stock shall be delivered to the holder of such award.

3.3 **Terms of Restricted Stock Awards**. Restricted Stock Awards shall be subject to the following terms and conditions, and the Agreements evidencing such awards shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee deems advisable.

(a) Number of Shares and Other Terms. The number of shares of Common Stock subject to a Restricted Stock Award and the Performance Measures (if any) and Restriction Period applicable to a Restricted Stock Award shall be determined by the Committee.

(b) Vesting and Forfeiture. The Agreement relating to a Restricted Stock Award shall provide, in the manner determined by the Committee, in its discretion, and subject to the provisions of this Plan, for the vesting of the shares of Common Stock subject to such award (i) if the holder of such award remains continuously in the employment of or continuously provides service to the Company during the specified Restriction Period and (ii) if specified Performance Measures (if any) are satisfied or met during the specified Performance Period, and for the forfeiture of all or a portion of the shares of Common Stock subject to such award (x) if the holder of such award does not remain continuously in the employment of or service to the Company during the specified Restriction Period or (y) if specified Performance Measures (if any) are not satisfied or met during the specified Performance Period.

(c) Share Certificates. During the Restriction Period, a certificate or certificates representing a Restricted Stock Award may be registered in the holder's name or a nominee name at the discretion of the Company and may bear a legend, in addition to any legend which may be required pursuant to Section 4.6, indicating that the ownership of the shares of Common Stock represented by such certificate is subject to the restrictions, terms and conditions of this Plan and the Agreement relating to the Restricted Stock Award. As determined by the Committee, all certificates registered in the holder's name shall be deposited with the Company, together with stock powers or other instruments of assignment (including a power of attorney), each endorsed in blank with a guarantee of signature if deemed necessary or appropriate by the Company, which would permit transfer to the Company of all or a portion of the shares of Common Stock subject to the Restricted Stock Award in the event such award is forfeited in whole or in part. Upon termination of any applicable Restriction Period (and the satisfaction or attainment of applicable Performance Measures), subject to the Company's right to require payment of any taxes in accordance with Section 4.5, a certificate or certificates evidencing ownership of the requisite number of shares of Common Stock shall be delivered to the holder of such award.



(d) Rights with Respect to Restricted Stock Awards. Unless otherwise set forth in the Agreement relating to a Restricted Stock Award, and subject to the terms and conditions of the Agreement relating to a Restricted Stock Award, the holder of such award shall have all rights as a stockholder of the Company, including, but not limited to the right to receive dividends and the right to participate in any capital adjustment applicable to all holders of Common Stock; provided, however, that any distribution with respect to shares of Common Stock shall be deposited with the Company and shall be subject to the same restrictions as the shares of Common Stock with respect to which such distribution was made.

3.4 **Terms of Restricted Stock Unit Awards**. Restricted Stock Unit Awards shall be subject to the following terms and conditions and the Agreements evidencing such awards shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable.

(a) Number of Shares and Other Terms. The number of shares of Common Stock subject to a Restricted Stock Unit Award and the Restriction Period and Performance Measures (if any) applicable to a Restricted Stock Unit Award shall be determined by the Committee.

(b) Vesting and Forfeiture. The Agreement relating to a Restricted Stock Unit Award shall provide, in the manner determined by the Committee, in its discretion, and subject to the provisions of this Plan, for the vesting of such Restricted Stock Unit Award (i) if the holder of such award remains continuously in the employment of or continuously provides service to the Company during the specified Restriction Period and (ii) if specified Performance Measures (if any) are satisfied or met during the specified Performance Period, and for the forfeiture of all or a portion of the shares of Common Stock subject to such award (x) if the holder of such award does not remain continuously in the employment of or service to the Company during the specified Restriction Period or (y) if specified Performance Measures (if any) are not satisfied or met during the specified Performance Period.

(c) Settlement of Vested Restricted Stock Unit Awards. The Agreement relating to a Restricted Stock Unit Award shall specify (i) whether such award may be settled in shares of Common Stock, including Restricted Stock, or cash or a combination thereof and (ii) whether the holder thereof shall be entitled to receive, on a current or deferred basis, dividend equivalents and, if determined by the Committee, interest on, or the deemed reinvestment of, any deferred dividend equivalents, with respect to the number of shares of Common Stock subject to such award. Prior to the settlement of a Restricted Stock Unit Award, the holder of such award shall have no rights as a stockholder of the Company with respect to the shares of Common Stock subject to such award.

3.5 **Termination of Employment or Service**. All of the terms relating to the termination of the Restriction Period and the satisfaction of Performance Measures relating to a Stock Award, or any forfeiture and cancellation of such award upon a termination of



employment with or service to the Company of the recipient of such award, whether due to Disability, death or under any other circumstances, shall be determined by the Committee.

## IV. GENERAL

4.1 **Effective Date and Term of Plan**. This Plan shall be submitted to the stockholders of the Company for approval within 12 months before or after its adoption by the Board and, if approved, shall become effective as of the date of such adoption by the Board. No option granted after the adoption of the Plan by the Board may be exercised prior to the date of such stockholder approval. This Plan shall terminate 10 years after its effective date, unless terminated earlier by the Board. Termination of this Plan shall not affect the terms or conditions of any award granted prior to such termination.

4.2 **Amendments**. The Board may amend this Plan as it shall deem advisable, subject to any requirement of stockholder approval required by applicable law, rule or regulation, including Section 422 of the Code; provided, however, that no amendment shall be made without stockholder approval if such amendment would (a) increase the maximum number of shares of Common Stock available under this Plan (subject to Section 4.7), (b) effect any change inconsistent with Section 422 of the Code or (c) extend the term of this Plan. Except as provided by Section 4.12, no amendment may impair the rights of a holder of an outstanding award without the consent of such holder.

4.3 **Agreement**. Each award hereunder shall be subject to the terms of an Agreement executed by the Company and the recipient of such award and such award shall be effective as of the date set forth in the Agreement. The Agreement evidencing an award hereunder, or any other agreement between the Company and the holder of such award, may authorize the Company to repurchase any shares of Common Stock issued under the Plan to the holder of such award (or to any other person) pursuant to the terms and conditions set forth in such agreement.

4.4 **Non-Transferability of Awards**. Unless the Committee provides for the transferability of a particular award and such transferability is specified in the Agreement relating to such award, no award shall be transferable other than by will, the laws of descent and distribution or pursuant to beneficiary designation procedures stated in Section 4.11 or otherwise approved by the Company. Except to the extent permitted by the foregoing sentence or the Agreement relating to the Award, each award may be exercised or settled during the recipient's lifetime only by the recipient or the recipient's legal representative or similar person. Except to the extent permitted by the first sentence of this Section or the Agreement relating to the Award, no award may be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Upon any attempt to so sell, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of any such award, such award and all rights thereunder shall immediately become null and void.

4.5 **Tax Withholding**. The Company shall have the right to require, prior to the issuance or delivery of any shares of Common Stock or the payment of any cash pursuant to an award made hereunder, payment by the holder of such award of any federal, state, local or other taxes which may be required to be withheld or paid in connection with such award. An



Agreement may provide that (i) the Company shall withhold whole shares of Common Stock which would otherwise be delivered to a holder, having an aggregate Fair Market Value determined as of the date the obligation to withhold or pay taxes arises in connection with an award (the "**Tax Date**"), or withhold an amount of cash which would otherwise be payable to a holder, in the amount necessary to satisfy any such obligation or (ii) the holder may satisfy any such obligation by any of the following means: (A) a cash payment to the Company, (B) delivery (either actual delivery or by attestation procedures established by the Company) to the Company of shares of Common Stock having an aggregate Fair Market Value, determined as of the Tax Date, equal to the amount necessary to satisfy any such obligation, (C) authorizing the Company to withhold whole shares of Common Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the Tax Date, or withhold an amount of cash which would otherwise be payable to a holder, equal to the amount necessary to satisfy any such obligation, (D) in the case of the exercise of an option, a cash payment by a broker-dealer acceptable to the Company to whom the optionee has submitted an irrevocable notice of exercise (if the Common Stock is then publicly traded) or (E) any combination of (A), (B), (C) and (D), in each case to the extent set forth in the Agreement relating to the award; provided, however, that the Company shall have sole discretion to disapprove of an election pursuant to any of clauses (ii) (B) through (E). Shares of Common Stock to be delivered or withheld may not have an aggregate Fair Market Value in excess of the amount determined by applying the minimum statutory withholding rate. Any fraction of a share of Common Stock which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be paid in cash by the holder.

4.6 **Restrictions on Shares**. Each award made hereunder shall be subject to the requirement that if at any time the Company determines that the listing, registration or qualification of the shares of Common Stock subject to such award upon any securities exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action is necessary or desirable as a condition of, or in connection with, the exercise or settlement of such award or the delivery of shares thereunder, such award shall not be exercised or settled and such shares shall not be delivered unless such listing, registration, qualification, consent, approval or other action shall have been effected or obtained, free of any conditions not acceptable to the Company. The Committee may provide for such restrictions upon the transferability of shares of Common Stock delivered pursuant to any award made hereunder as it deems appropriate and such restrictions shall be specified in the Agreement relating to such award or in a stockholder agreement among the stockholders of the Company. The Company may require that certificates evidencing shares of Common Stock delivered pursuant to any award made hereunder bear a legend indicating that the sale, transfer or other disposition thereof by the holder is prohibited except in compliance with the Securities Act, as amended, and the rules and regulations thereunder and such other restrictions, if any, specified in the Agreement relating to the award pursuant to which such shares were delivered.

4.7 **Adjustment**. In the event of any stock split, reverse stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock, other than a cash dividend that is less than 35% of the consolidated net income of the Company, the number and class of securities available under this Plan, the number and class of securities subject to each outstanding option and the purchase price per



security, the number and class of securities subject to each outstanding Stock Award, and the terms of each outstanding Restricted Stock Award or Restricted Stock Unit Award shall be appropriately adjusted by the Committee, such adjustments to be made in the case of outstanding options without an increase in the aggregate purchase price. The decision of the Committee regarding any such adjustment shall be final, binding and conclusive. If any such adjustment would result in a fractional security being (a) available under this Plan, such fractional security shall be disregarded, or (b) subject to an award under this Plan, the Company shall pay the holder of such award, in connection with the first vesting, exercise or settlement of such award in whole or in part occurring after such adjustment, an amount in cash determined by multiplying (i) the fraction of such security (rounded to the nearest hundredth) by (ii) the excess, if any, of (A) the Fair Market Value on the vesting, exercise or settlement date over (B) the exercise price, if any, of such award.

4.8 **Change in Control**. In the event of a Change in Control, the Board in its discretion may determine that (i) all outstanding options shall immediately become exercisable in full, (ii) the Restriction Period applicable to any outstanding Restricted Stock Award or Restricted Stock Unit Award shall lapse, (iii) the Performance Period applicable to any outstanding award shall lapse and (iv) the Performance Measures applicable to any outstanding award shall be deemed to be satisfied at a level specified by the Board. In addition, the Board may, in its discretion:

(a) require the substitution of shares of Common Stock subject to each award in the manner provided in Section 4.7 hereof; or

(b) require each award to be surrendered to the Company and to be immediately cancelled by the Company, and to provide for each holder to receive a cash payment from the Company in an amount equal to (i) in the case of an option, the number of shares of Common Stock then subject to such option, multiplied by the excess, if any, of the greater of (A) the highest per share price offered to holders of Common Stock in any transaction whereby the Change in Control takes place or (B) the Fair Market Value of a share of Common Stock on the date of occurrence of the Change in Control, over the purchase price per share of Common Stock subject to the option and (ii) in the case of a Restricted Stock Award or Restricted Stock Unit Awards, the number of shares of Common Stock then subject to such award, multiplied by the greater of (A) the highest per share price offered to holders of Common Stock of the Company in any transaction whereby the Change in Control takes place or (B) the Fair Market Value of a share of Common Stock on the date of occurrence of the Change in Control.

4.9 **No Right of Participation or Employment**. No person shall have any right to participate in this Plan. Neither this Plan nor any award made hereunder shall confer upon any person any right to continued employment by the Company or any Affiliate or affect in any manner the right of the Company or any Affiliate to terminate the employment of any person at any time without liability hereunder.

4.10 **Rights as Stockholder**. No person shall have any right as a stockholder of the Company with respect to any shares of Common Stock or other equity security of the Company



which is subject to an award hereunder unless and until such person becomes a stockholder of record with respect to such shares of Common Stock or equity security.

4.11 **Designation of Beneficiary**. If permitted by the Company, a holder of an award may file with the Company a written designation of one or more persons as such holder's beneficiary or beneficiaries (both primary and contingent) in the event of the holder's death. To the extent an outstanding option granted hereunder is exercisable, such beneficiary or beneficiaries shall be entitled to exercise such option. Each beneficiary designation shall become effective only when filed in writing with the Company during the holder's lifetime on a form prescribed by the Company. The spouse of a married holder domiciled in a community property jurisdiction shall join in any designation of a beneficiary other than such spouse. The filing with the Company of a new beneficiary designation shall cancel all previously filed beneficiary designations. If a holder fails to designate a beneficiary, or if all designated beneficiaries of a holder predecease the holder, then each outstanding option hereunder held by such holder, to the extent exercisable, may be exercised by such holder's executor, administrator, legal representative or similar person.

4.12 **Compliance With Section 409A of Code**. This Plan and each award granted under the Plan are intended to comply with the provisions of Section 409A of the Code, and shall be interpreted and construed accordingly. The Committee shall have the discretion and authority to amend the Plan or any award Agreement without the consent of the holder at any time to satisfy any requirements of Section 409A of the Code or guidance provided by the U.S. Treasury Department to the extent applicable to the Plan or any such award.

4.13 **Recipients of Awards in Other Countries or Jurisdictions**. Without amending the Plan, the Committee may grant awards to eligible persons who are foreign nationals on such terms and conditions different from those specified in the Plan, which may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan and shall have the authority to adopt such modifications, procedures, subplans and the like as may be necessary or desirable to comply with provisions of the laws or regulations of other countries or jurisdictions in which the Company or any Affiliate may operate or have employees to ensure the viability of the benefits of awards granted to recipients employed in such countries or jurisdictions, meet the requirements that permit the Plan to operate in a qualified or tax efficient manner, comply with applicable foreign laws or regulations and meet the objectives of the Plan.

4.14 **Governing Law**. This Plan, each award hereunder and the related Agreement, and all determinations made and actions taken pursuant thereto, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Illinois and construed in accordance therewith without giving effect to principles of conflicts of laws.

**2008 PAYLOCITY CORPORATION**
**EQUITY INCENTIVE PLAN**

**AWARD NOTICE**

**[Name and Address of Optionee]**

_____

_____

You have been awarded an option to purchase shares of common stock of Paylocity Corporation (the "**Company**"), pursuant to the terms and conditions of the 2008 Paylocity Equity Incentive Plan (the "**Plan**") and the Stock Option Agreement (together with this Award Notice, the "**Agreement**"). Copies of the Plan and the Stock Option Agreement are attached hereto. Capitalized terms not defined herein shall have the meanings specified in the Plan or the Agreement.

Option: You have been awarded a **[Non-Statutory Stock Option]** to purchase from the Company **[insert number]** shares of its Common Stock, par value $0.001 per share, subject to adjustment as provided in Section 3.4 of the Stock Option Agreement.

Option Date: **[insert date of grant]**

Exercise Price: $ per share, subject to adjustment as provided in Section 3.4 of the Stock Option Agreement.

Vesting Schedule: The Option shall vest (i) on the first anniversary of the Option Date with respect to 25% of the number of shares subject thereto on the Option Date, (ii) on the second anniversary of the Option Date with respect to an additional 25% of the number of shares subject thereto on the Option Date, (iii) on the third anniversary of the Option Date with respect to an additional 25% of the number of shares subject thereto on the Option Date and (iv) on the fourth anniversary of the Option Date with respect to the remaining 25% of the number of shares subject thereto on the Option Date, provided you remain continuously employed by the Company or one of its Affiliates through such date.

Exercise Schedule: Subject to Section 2.2 of the Agreement, the Option shall be exercisable to the extent that the Option is vested.

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Expiration Date: Except to the extent earlier terminated pursuant to Section 2.2 of the Stock Option Agreement or earlier exercised pursuant to Section 2.3 of the Stock Option Agreement, the Option shall terminate at 5:00 p.m., Central time, on the tenth anniversary of the Option Date.

Paylocity Corporation

By: _____
Name:
Title:

Acknowledgment, Acceptance and Agreement:

By signing below and returning this Award Notice to Paylocity Corporation at the address stated herein, I hereby acknowledge receipt of the Agreement and the Plan, accept the Option granted to me and agree to be bound by the terms and conditions of this Award Notice, the Agreement and the Plan.

_____
Optionee

_____
Date

**PAYLOCITY CORPORATION**
**3850 NORTH WILKE ROAD**
**ARLINGTON HEIGHTS, IL 60060**



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**2008 PAYLOCITY CORPORATION**
**EQUITY INCENTIVE PLAN**

**STOCK OPTION AGREEMENT**

Paylocity Corporation, an Illinois corporation (the "**Company**"), hereby grants to the individual ("**Optionee**") named in the award notice attached hereto (the "**Award Notice**") as of the date set forth in the Award Notice (the "**Option Date**"), pursuant to the provisions of the 2008 Paylocity Corporation Equity Incentive Plan (the "**Plan**"), an option to purchase from the Company the number of shares of its common stock, par value $0.001 per share ("**Common Stock**"), set forth in the Award Notice at the price per share set forth in the Award Notice (the "**Exercise Price**") (the "**Option**"), upon and subject to the terms and conditions set forth below, in the Award Notice and in the Plan. Capitalized terms not defined herein or in the Award Notice shall have the meanings specified in the Plan.

1. Option Subject to Acceptance of Agreement. The Option shall be null and void unless Optionee shall accept this Agreement by executing the Award Notice in the space provided therefor and returning an original execution copy of the Award Notice to the Company.

2. Time and Manner of Exercise of Option.

2.1. Maximum Term of Option. In no event may the Option be exercised, in whole or in part, after the expiration date set forth in the Award Notice (the "**Expiration Date**").

2.2. Vesting and Exercise of Option. The Option shall become vested in accordance with the vesting schedule set forth in the Award Notice (the "**Vesting Schedule**") and shall become exercisable in accordance with the exercise schedule set forth in the Award Notice (the "**Exercise Schedule**"). The Option shall be vested and exercisable following a termination of employment by Optionee according to the following terms and conditions:

(a) Death or Disability. If Optionee's employment or other service with the Company terminates due to death or Disability, the Option shall be vested only to the extent it is vested on the effective date of Optionee's termination of employment and may thereafter be exercised by Optionee or Optionee's executor, administrator, legal representative, guardian or similar person until and including the earlier to occur of (i) the date which is one year after the effective date of Optionee's termination of employment and (ii) the Expiration Date.

(b) Cause. Constructive Discharge or Voluntary Resignation. If Optionee's employment or other service with the Company is terminated by the Company for Cause, constructive discharge or voluntary resignation, the Option, whether or not vested, shall terminate immediately upon such termination of employment.

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(c) Other Reasons. If Optionee's employment or other service with the Company is terminated due to circumstances other than as set forth in Sections 2.2(a) and (b), the Option shall be vested only to the extent it is vested on the effective date of Optionee's termination of employment and may thereafter be exercised by Optionee until and including the earliest to occur of (i) the date which is 90 days after the effective date of Optionee's termination of employment, (ii) the date Optionee breaches an employment, noncompetition, nonsolicitation, confidentiality, inventions or similar agreement between the Company and Optionee (an "**Employment Agreement**") and (iii) the Expiration Date.

(d) Death Following Termination. If Optionee dies during the period set forth in Section 2.2(a) or Section 2.2(c), the Option shall be vested only to the extent it is vested on the date of death and may thereafter be exercised by Optionee's executor, administrator, legal representative, guardian or similar person until and including the earlier to occur of (i) the date which is one year after the date of death and (ii) the Expiration Date.

It is the Optionee's responsibility to be aware of the date the Option terminates.

2.3. Method of Exercise. Subject to the limitations set forth in this Agreement, the Option may be exercised by Optionee (a) by delivering to the Company an Exercise Notice and Share Repurchase Agreement in the form attached as Exhibit A specifying the number of whole shares of Common Stock to be purchased and by accompanying such notice with payment therefor in full (or by arranging for such payment to the Company's satisfaction) either (i) in cash, (ii) by delivery to the Company (either actual delivery or by attestation procedures established by the Company) of shares of Common Stock having an aggregate Fair Market Value, determined as of the date of exercise, equal to the aggregate purchase price payable pursuant to the Option by reason of such exercise, (iii) authorizing the Company to withhold whole shares of Common Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the date of exercise, equal to the amount necessary to satisfy such obligation, provided that the Committee determines that such withholding of shares does not cause the Company to recognize an increased compensation expense under applicable accounting principles, (iv) if the Common Stock is then publicly traded, in cash by a broker- dealer acceptable to the Company to whom Optionee has submitted an irrevocable notice of exercise or (v) by a combination of (i), (ii), (iii) and (iv), and (b) by executing such documents as the Company may reasonably request. The Company shall have sole discretion to disapprove of an election pursuant to any of clauses (ii through (v). Any fraction of a share of Common Stock which would be required to pay such purchase price shall be disregarded and the remaining amount due shall be paid in cash by Optionee. No certificate representing a share of Common Stock shall be issued or delivered until the full purchase price therefor and any withholding taxes thereon, as described in Section 3.3, have been paid. If shares of Common Stock have not been registered under the Securities Act at the time the Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or a portion of the Option, deliver to the



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Company an executed Investment Representation Statement in the form attached hereto as Exhibit B.

2.4. Termination of Option. In no event may the Option be exercised after it terminates as set forth in this Section 2.4. The Option shall terminate, to the extent not earlier terminated pursuant to Section 2.2 or exercised pursuant to Section 2.3, on the Expiration Date. Notwithstanding the foregoing, however, if Optionee breaches a covenant set forth in an Employment Agreement at any time, the Option shall terminate automatically upon such breach. Upon the termination of the Option, the Option and all rights hereunder shall immediately become null and void.

3. Additional Terms and Conditions of Option.

3.1. Nontransferability of Option. The Option may not be transferred by Optionee other than by will or the laws of descent and distribution or pursuant to the designation of one or more beneficiaries on the form set forth in Exhibit C hereto. Except to the extent otherwise provided herein, (i) during Optionee's lifetime the Option is exercisable only by Optionee or Optionee's legal representative, guardian or similar person and (ii) the Option may not be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Upon any attempt to so sell, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of the Option, the Option and all rights hereunder shall immediately become null and void.

3.2. Investment Representation. The Optionee hereby represents and covenants that (a) any shares of Common Stock purchased upon exercise of the Option will be purchased for investment and not with a view to the distribution thereof within the meaning of the Securities Act unless such purchase has been registered under the Securities Act and any applicable state securities laws; (b) any subsequent sale of any such shares shall be made either pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws; and (c) if requested by the Company, Optionee shall submit a written statement, in a form satisfactory to the Company, to the effect that such representation (x) is true and correct as of the date of any purchase of any shares hereunder or (y) is true and correct as of the date of any sale of any such shares, as applicable. As a further condition precedent to any exercise of the Option,

Optionee shall comply with all regulations and requirements of any regulatory authority having control of or supervision over the issuance or delivery of the shares and, in connection therewith, shall execute any documents which the Board or the Committee shall in its sole discretion deem necessary or advisable.

3.3. Withholding Taxes. (a) As a condition precedent to the issuance of Common Stock upon exercise of the Option, Optionee shall, upon request by the Company, pay to the Company in addition to the purchase price of the shares, such amount as the Company may be required, under all applicable federal, state, local or other laws or regulations, to withhold and pay over as income or other withholding taxes (the "**Required Tax Payments**") with respect to such exercise of the Option. If



Optionee shall fail to advance the Required Tax Payments after request by the Company, the Company may, in its discretion, deduct any Required Tax Payments from any amount then or thereafter payable by the Company to Optionee.

(a) The Optionee may elect to satisfy his or her obligation to advance the Required Tax Payments by any of the following means: (1) a cash payment to the Company, (2) delivery to the Company (either actual delivery or by attestation procedures established by the Company) of shares of Common Stock having an aggregate Fair Market Value, determined as of the Tax Date, equal to the Required Tax Payments, (3) authorizing the Company to withhold whole shares of Common Stock which would otherwise be issued to Optionee upon exercise of the Option having an aggregate Fair Market Value, determined as of the Tax Date, equal to the Required Tax Payments, (4) if the Common Stock is then publicly traded, a cash payment by a broker-dealer acceptable to the Company to whom Optionee has submitted an irrevocable notice of exercise or (5) any combination of (1), (2), (3) and (4). The Company shall have sole discretion to disapprove of an election pursuant to any of clauses (2) through (5). Shares of Common Stock to be delivered or withheld may not have a Fair Market Value in excess of the minimum amount of the Required Tax Payments. Any fraction of a share of Common Stock which would be required to satisfy any such obligation shall be disregarded and the remaining amount due shall be paid in cash by Optionee. No certificate representing a share of Common Stock shall be issued or delivered until the Required Tax Payments have been satisfied in full.

3.4. Adjustment. In the event of any stock split, reverse stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock, other than a cash dividend that is less than 35% of the consolidated net income of the Company, the number, type and class of securities subject to the Option and the Exercise Price shall be appropriately adjusted by the Committee, such adjustment to be made without an increase in the aggregate purchase price. The decision of the Committee regarding any such adjustment shall be final, binding and conclusive. If any such adjustment would result in a fractional security being subject to the Option, the Company shall pay Optionee, in connection with the first exercise occurring after such adjustment, an amount in cash determined by multiplying (i) the fraction of such security (rounded to the nearest hundredth) by (ii) the excess, if any, of (A) the Fair Market Value on such date over (B) the Exercise Price of the Option.

3.5. Change in Control. (a) In the event of a Change in Control, the Board may, in its discretion, provide that the Option shall immediately become vested and exercisable in full. In addition, the Board may, in its discretion:

(1) require the substitution of shares of Common Stock subject to the Option in the manner provided in Section 3.4 hereof; or

(2) require the Option to be surrendered to the Company and to be immediately cancelled by the Company, and to provide for Optionee to



receive a cash payment from the Company in an amount equal to the number of shares of Common Stock then subject to the Option multiplied by the excess, if any, of the greater of (i) the highest per share price payable to holders of Common Stock in any transaction whereby the Change in Control takes place or (ii) the Fair Market Value of a share of Common Stock on the date of the occurrence of the Change in Control, over the Exercise Price.

(b) If the Company terminates the Optionee's employment other than for Cause within six months prior to or within twelve months after a Change in Control, the Option shall immediately become vested and exercisable in full as of the later of the date of the Change in Control and the date of the Optionee's termination, as applicable.

3.6. Compliance with Applicable Law. The Option is subject to the condition that if the listing, registration or qualification of the shares subject to the Option upon any securities exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action is necessary or desirable as a condition of, or in connection with, the purchase or issuance of shares hereunder, the Option may not be exercised, in whole or in part, and such shares may not be issued, unless such listing, registration, qualification, consent, approval or other action shall have been effected or obtained, free of any conditions not acceptable to the Company. The Company agrees to use reasonable efforts to effect or obtain any such listing, registration, qualification, consent, approval or other action.

3.7. Issuance or Delivery of Shares. Upon the exercise of the Option, in whole or in part, the Company shall issue or deliver, subject to the conditions of this Article 3, the number of shares of Common Stock purchased against full payment therefor. Such issuance shall be evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company. The Company shall pay all original issue or transfer taxes and all fees and expenses incident to such issuance, except as otherwise provided in Section 3.3.

3.8. Option Confers No Rights as Stockholder. The Optionee shall not be entitled to any privileges of ownership with respect to shares of Common Stock subject to the Option unless and until such shares are purchased and issued upon the exercise of the Option, in whole or in part, and Optionee becomes a stockholder of record with respect to such issued shares. The Optionee shall not be considered a stockholder of the Company with respect to any such shares not so purchased and issued. As a condition to the exercise of the Option, Optionee shall execute and become a party to, and be subject to all of the terms and conditions of, the voting agreement entered into among the Company and its stockholders (the "**Voting Agreement**"), with respect to any shares of Common Stock purchased and issued upon exercise of the Option.

3.9. Option Confers No Rights to Continued Employment. In no event shall the granting of the Option or its acceptance by Optionee, or any provision of this



Agreement or the Plan, give or be deemed to give Optionee any right to continued employment by the Company or any Affiliate.

3.10. Designation of Option. If designated in the Award Notice as an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code but the Company does not represent or guarantee that the Option qualified as such. To the extent the Option is exercised pursuant to its terms after the period set forth in Section 422(a) of the Code or exceeds the limitation set forth in Section 422(d) of the Code or otherwise does not meet the requirements for an incentive stock option under Section 422 of the Code, the Option shall not be treated as an Incentive Stock Option.

3.11. Initial Public Offering. The Optionee hereby agrees that in the event of an IPO, Optionee shall not offer, sell, contract to sell, pledge, hypothecate, grant any option to purchase or make any short sale of, or otherwise dispose of any shares of stock of the Company or any rights to acquire stock of the Company for such period of time from and after the effective date of such registration statement as may be established by the underwriter for such IPO. The foregoing limitation shall not apply to shares registered in the IPO under the Securities Act.

4. Miscellaneous Provisions.

4.1. Decisions of Board or Committee. The Board or the Committee shall have the right to resolve all questions which may arise in connection with the Option or its exercise. Any interpretation, determination or other action made or taken by the Board or the Committee regarding the Plan or this Agreement shall be final, binding and conclusive.

4.2. Successors. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall, upon the death of Optionee, acquire any rights hereunder in accordance with this Agreement or the Plan.

4.3. Notices. All notices, requests or other communications provided for in this Agreement shall be made, if to the Company, to Paylocity Corporation, 3850 North Wilke Road, Arlington Heights, IL 60060, and if to Optionee, to the last known mailing address of Optionee contained in the records of the Company. All notices, requests or other communications provided for in this Agreement shall be made in writing either (a) by personal delivery, (b) by facsimile or electronic mail with confirmation of receipt, (c) by mailing in the United States mails or (d) by express courier service. The notice, request or other communication shall be deemed to be received upon personal delivery, upon confirmation of receipt of facsimile or electronic mail transmission or upon receipt by the party entitled thereto if by United States mail or express courier service; provided, however, that if a notice, request or other communication sent to the Company is not received during regular business hours, it shall be deemed to be received on the next succeeding business day of the Company.



4.4. Partial Invalidity. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

4.5. Governing Law. This Agreement, the Option and all determinations made and actions taken pursuant hereto and thereto, to the extent not governed by the Code or the laws of the United States, shall be governed by the laws of the State of Illinois and construed in accordance therewith without giving effect to principles of conflicts of laws.

4.6. Counterparts. The Award Notice may be executed in two counterparts, each of which shall be deemed an original and both of which together shall constitute one and the same instrument.

4.7. Agreement Subject to the Plan. This Agreement is subject to the provisions of the Plan, and shall be interpreted in accordance therewith. The Optionee hereby acknowledges receipt of a copy of the Plan, and by signing and returning the Award Notice to the Company, at the address stated herein, he or she agrees to be bound by the terms and conditions of this Agreement, the Award Notice and the Plan.

4.8. Section 409A Compliance. Notwithstanding any provision in the Plan or this Agreement to the contrary, the Committee may, at any time and without the Optionee's consent, modify the terms of the Option as it determines appropriate to avoid the imposition of interest or penalties under Section 409A of the Code.



**EXHIBIT A**

**2008 PAYLOCITY CORPORATION**
**EQUITY INCENTIVE PLAN**

**EXERCISE NOTICE AND SHARE**
**REPURCHASE AGREEMENT**

Paylocity Corporation
3850 North Wilke Road
Arlington Heights, IL 60060

1. Exercise of Option. Effective as of today , 20 , the undersigned ("**Optionee**") hereby elects to exercise Optionee's option (the "**Option**") to purchase shares of the Common Stock (the "**Shares**") of Paylocity Corporation (the "**Company**") under and pursuant to the 2008

Paylocity Corporation Equity Incentive Plan (the "**Plan**") and the Award Notice dated , 20 and the Stock Option Agreement (together with the Award Notice, the "**Option Agreement**").

2. Delivery of Payment. Optionee herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement.

3. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood this Exercise Notice and Share Repurchase Agreement (this "**Agreement**"), the Plan, the Option Agreement, the Voting Agreement among the Company and its stockholders (the "**Voting Agreement**") and the Paylocity Corporation Right of First Refusal and Co-Sale Agreement entered into by an among the Company, Paylocity Management Holdings, LLC, the persons and entities listed on Exhibit A attached thereto and Dan Miller, Steven Beauchamp and Michael Haske dated as of May 14, 2008 (the "**Right of First Refusal and Co-Sale Agreement**"), and agrees to abide by and be bound by their terms and conditions. Optionee also agrees that, as a condition to the exercise of the Option, Optionee will be required to become a party to the Voting Agreement and the Right of First Refusal and Co-Sale Agreement and the Shares will be held subject to the terms and conditions of such Voting Agreement and Right of First Refusal and Co-Sale Agreement.

4. Rights as Stockholder. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to receive dividends or any other rights as a stockholder shall exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares shall be issued to Optionee as soon as practicable after the Option is exercised. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 3.4 of the Option Agreement.

5. Company Share Repurchase Option. (a) Any time following the occurrence of (i) the termination of Optionee's employment or service with the Company for any reason, (ii) a breach by Optionee of any covenant set forth in any employment, noncompetition, nonsolicitation, confidentiality, inventions or similar agreement between the Company and Optionee (an "**Employment Agreement**") at any time or (iii) the death of Optionee, the



Company shall have the right (but not the obligation) in its sole discretion to repurchase any or all of the Shares held by Optionee (the "**Share Repurchase Option**"). If the Company repurchases any Shares pursuant to this Section, it shall pay to Optionee, his or her legal representative or such other holder of the Shares a purchase price equal to:

(i) in the case of (A) Optionee's termination of employment for any reason other than Cause or (B) the death of Optionee, the Fair Market Value of such Shares as of the date the Company elects to repurchase such Shares; and

(ii) in the case of (A) Optionee's termination of employment by the Company for Cause or (B) Optionee's breach of an Employment Agreement, the lesser of the Exercise Price, as adjusted pursuant to Section 3.4 of the Option Agreement, or the Fair Market Value of the Shares as of the date the Company elects to repurchase such Shares.

(b) The Company's Share Repurchase Option shall be in addition to any other rights or remedies that the Company may have under this Agreement, any Employment Agreement, the Voting Agreement or otherwise. If the Company elects to repurchase any Shares pursuant to this Section, the Company shall deliver to Optionee a notice setting forth the number of Shares which it has elected to repurchase. If the Company repurchases any of the Shares held by Optionee pursuant to this Section, Optionee shall deliver to the Company a certificate or certificates for the Shares being repurchased, duly endorsed or otherwise in proper form for transfer, against payment of the required repurchase price by cash or check. The repurchase rights hereunder may be exercised by any person to whom the Company assigns such rights.

6. Repurchase Restrictions. Notwithstanding anything to the contrary contained in this Agreement, all repurchases of Shares by the Company pursuant to Section 5 shall be subject to applicable restrictions contained in the Illinois General Corporation Law and in the Company's debt and equity financing agreements. If any such restrictions prohibit the repurchase of Shares hereunder which the Company is otherwise entitled to make, the time period provided in Section 5 shall be suspended, and the Company shall make such repurchases as soon as it is permitted to do so under such restrictions; provided that any notices shall still be delivered, if at all, within the time frame specified in Section 5.

7. Termination of Repurchase Rights and Obligations. The repurchase rights and obligations of the Company set forth in Section 5 hereof shall terminate as to any Shares upon the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act, as amended.

8. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.



9. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT THEREOF OR UNLESS THE TRANSFER IS OTHERWISE EXEMPT FROM REGISTRATION. THE COMPANY MAY REQUIRE A WRITTEN OPINION OF COUNSEL (FROM COUNSEL ACCEPTABLE TO THE COMPANY) SATISFACTORY TO THE COMPANY, TO THE EFFECT THAT REGISTRATION IS NOT REQUIRED IN CONNECTION WITH SUCH PROPOSED SALE, PLEDGE, HYPOTHECATION OR OTHER TRANSFER. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE, HYPOTHECATION OR OTHER TRANSFER OF ANY INTEREST IN ANY OF THE SHARES REPRESENTED BY THIS CERTIFICATE.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN REPURCHASE OPTIONS HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH REPURCHASE OPTIONS ARE BINDING ON TRANSFEREES OF THESE SHARES.

(b) Stop-Transfer Notices. Optionee agrees that in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise Transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other Transferee to whom such Shares shall have been so transferred.

10. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.



11. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by Optionee or by the Company forthwith to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on all parties.

12. Governing Law. This Agreement, the Option and all determinations made and actions taken pursuant hereto and thereto, to the extent not governed by the laws of the United States, shall be governed by the laws of the State of Illinois and construed in accordance therewith without giving effect to principles of conflicts of laws.

13. Entire Agreement. The Plan and the Option Agreement are incorporated herein by reference. Capitalized terms not defined herein shall have the meanings specified in the Plan or the Option Agreement. This Agreement, the Plan, the Option Agreement, the Investment Representation Statement and the Voting Agreement, if any, constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to Optionee's interest except by means of a writing signed by the Company and Optionee.

| | |
|---|---|
| Submitted by: | Accepted by: |
| Optionee: | Paylocity Corporation |
| _____ | _____ |
| Signature | By |
| _____ | _____ |
| Print Name | Its |
| | _____ |
| | Date Received |



**EXHIBIT B**

**2008 PAYLOCITY CORPORATION**
**EQUITY INCENTIVE PLAN**

**INVESTMENT REPRESENTATION STATEMENT**

Optionee: _____

Company: Paylocity Corporation

Security: Common Stock

Number of Shares:

Aggregate Exercise Price:

Date: _____

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "**Securities Act**").

(b) Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel satisfactory to the Company, and any other legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires the resale to occur not less than one year after the later of the date the Securities were sold by the Company or the date the Securities were sold by an affiliate of the Company, within the meaning of Rule 144; and, in the case of acquisition of the Securities by an affiliate, or by a non-affiliate who subsequently holds the Securities less than one year, the satisfaction of the conditions set forth in sections (1), (2), (3) and (4) of the paragraph immediately above.

(d) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

_____

_____

Date: ,



**EXHIBIT C**

**2008 PAYLOCITY CORPORATION**
**EQUITY INCENTIVE PLAN**

**BENEFICIARY DESIGNATION FORM**

You may designate a primary beneficiary and a secondary beneficiary for each option granted to you under the 2008 Paylocity Corporation Equity Incentive Plan. You can name more than one person as a primary or secondary beneficiary. For example, you may wish to name your spouse as primary beneficiary and your children as secondary beneficiaries. Your secondary beneficiary(ies) will receive nothing if any of your primary beneficiary(ies) survive you. All primary beneficiaries will share equally unless you indicate otherwise. The same rule applies for secondary beneficiaries.

Identify Award to Which This Beneficiary Designation Applies:

Option Granted on .

Designate Your Beneficiary(ies):

Primary Beneficiary(ies) (give name, address and relationship to you):

_____

_____

_____

_____

Secondary Beneficiary(ies) (give name, address and relationship to you):

_____

_____

_____

I certify that my designation of beneficiary set forth above is my free act and deed.

Name
(please print)

Signature

Date

**RESTRICTED STOCK AWARD AGREEMENT**

Paylocity Corporation, an Illinois corporation (the "**Company**"), hereby grants to [ ] (the "**Holder**") as of [ ], 20[ ] (the "**Grant Date**"), pursuant to the terms and conditions of the 2008 Paylocity Equity Incentive Plan (the "**Plan**"), a restricted stock award (the "**Award**") of [ ] shares of the Company's Common Stock, par value $0.001 per share ("**Stock**"), upon and subject to the restrictions, terms and conditions set forth in this agreement (the "**Agreement**").

1. Award Subject to Acceptance of Agreement. The Award shall be null and void unless the Holder shall (a) accept this Agreement by executing it in the space provided below and returning such original execution copy to the Company, (b) execute and return one or more irrevocable stock powers to facilitate the transfer to the Company (or its assignee or nominee) of all or a portion of the shares of Stock subject to the Award if any shares of Stock are forfeited pursuant to Section 4 or if required under applicable laws or regulations, (c) become a party to the Voting Agreement entered into among the Company and its stockholders (the "**Voting Agreement**") and (d) become a party to the Paylocity Corporation Right of First Refusal and Co-Sale Agreement entered into by an among the Company, Paylocity Management Holdings, LLC, the persons and entities listed on Exhibit A attached thereto and Dan Miller, Steven Beauchamp and Michael Haske dated as of May 14, 2008 (the "**Right of First Refusal and Co-Sale Agreement**"). As soon as practicable after the Holder has executed such documents and returned them to the Company, the Company shall cause to be issued in the Holder's name a stock certificate or certificates representing the total number of shares of Stock subject to the Award.

2. Rights as a Stockholder. Except as otherwise provided in this Agreement, the Voting Agreement or any other agreement to which the Holder is a party, the Holder shall have all rights as a holder of Stock, including, without limitation, the right to receive dividends and other distributions thereon unless and until such shares are forfeited pursuant to Section 4 hereof; provided, however, that a dividend or other distribution with respect to shares of Stock (including, without limitation, a stock dividend or stock split), other than a regular cash dividend, shall be delivered to the Company (and the Holder shall, if requested by the Company, execute and return one or more irrevocable stock powers related thereto) and shall be subject to the same restrictions as the shares of Stock with respect to which such dividend or other distribution was made.

3. Custody and Delivery of Certificates Representing Shares of Stock. The Company shall hold the certificate or certificates representing the shares of Stock subject to the Award until such Award shall have vested, in whole or in part, pursuant to Section 4, and the Company shall as soon thereafter as practicable deliver the certificate or certificates for the vested shares of Stock to the Holder and destroy the stock power or powers relating to the vested shares of Stock. If such stock power or powers also relate to unvested shares of Stock, the Company may require, as a condition precedent to delivery of any certificate pursuant to this Section 3, the execution and delivery to the Company of one or more stock powers relating to such unvested shares.

4. Restriction Period and Vesting.

4.1. In General. Except as otherwise provided in this Section 4, the Award shall vest (i) on the first anniversary of the Grant Date with respect to 25% of the number of shares of Stock subject thereto on the Grant Date, (ii) on the second anniversary of the Grant Date with respect to an additional 25% of the number of shares of Stock subject thereto on the Grant Date, (iii) on the third anniversary of the Grant Date with respect to an additional 25% of the number of shares of Stock subject thereto on the Grant Date and (iv) on the fourth anniversary of the Grant Date with respect to the remaining 25% of the number of shares of Stock subject thereto on the Grant Date, provided the Holder remains continuously employed by the Company or one of its Affiliates (as defined in the Plan) through such date. The period of time during which any of the shares of Stock subject to the Award shall be unvested shall be referred to herein as the "**Restriction Period**."

4.2. Change in Control. Upon a Change in Control, the Board in its discretion may determine that all shares of Stock subject to the Award that were not then vested immediately shall become vested, provided the Holder remains continuously employed by the Company or one of its Affiliates through the consummation of such Change in Control. If the Company terminates the Holder's employment other than for Cause within six months prior to or within twelve months after a Change in Control, all shares of Stock subject to the Award that were not then vested immediately shall become vested as of the later of the date of the Change in Control and the date of the Holder's termination, as applicable.

4.3. Termination of Employment or Service. If the Holder's employment or other service with the Company terminates prior to the end of the Restriction Period for any reason, then all shares of Stock subject to the Award that were not vested immediately prior to such termination immediately shall be forfeited by the Holder and cancelled by the Company.

4.4. Representations of Holder. The Holder acknowledges that the Holder has received, read and understood this Agreement (this "**Agreement**"), the Plan, the Right of First Refusal and Co-Sale Agreement and the Voting Agreement, if any, and agrees to abide by and be bound by their terms and conditions. The Holder also agrees that, as a condition to the issuance of the Stock, the Holder will be required to become a party to the Right of First Refusal and Co-Sale Agreement and the Voting Agreement, if any, and the shares of Stock will be held subject to the terms and conditions of such Right of First Refusal and Co-Sale Agreement and Voting Agreement.

5. Company Share Repurchase Option.

5.1. Any time following the occurrence of (i) the termination of Holder's employment with the Company for any reason, (ii) a breach by Holder of any covenant set forth in any employment, noncompetition, nonsolicitation, confidentiality, inventions or similar agreement between the Company and Holder (an "**Employment Agreement**") at any time or (iii) the death of Holder, the Company shall have the right (but not the obligation) in its sole discretion to repurchase any or all of the vested shares of Stock held

by Holder (the "**Share Repurchase Option**"). If the Company repurchases any vested shares of Stock pursuant to this Section, it shall pay to Holder, his or her legal representative or such other holder of the vested shares of Stock a purchase price equal to the Fair Market Value of such shares of Stock as of the date the Company elects to repurchase such vested shares of Stock.

5.2. The Company's Share Repurchase Option shall be in addition to any other rights or remedies that the Company may have under this Agreement, any employment agreement, the Voting Agreement, if any, or otherwise. If the Company elects to repurchase any vested shares of Stock pursuant to this Section, the Company shall deliver to Holder a notice setting forth the number of vested shares of Stock which it has elected to repurchase. If the Company repurchases any of the vested shares of Stock held by Holder pursuant to this Section, Holder shall deliver to the Company a certificate or certificates for the shares of Stock being repurchased, duly endorsed or otherwise in proper form for transfer, against payment of the required repurchase price by cash or check, the terms of which shall be prescribed by the Company subject to this Section 5.2. The repurchase rights hereunder may be exercised by any person to whom the Company assigns such rights.

6. Repurchase Restrictions. Notwithstanding anything to the contrary contained in this Agreement, all repurchases of shares of Stock by the Company pursuant to Section 5 shall be subject to applicable restrictions contained in the Illinois General Corporation Law and in the Company's debt and equity financing agreements. If any such restrictions prohibit the repurchase of shares of Stock hereunder which the Company is otherwise entitled to make, the time period provided in Section 5 shall be suspended, and the Company shall make such repurchases as soon as it is permitted to do so under such restrictions; provided that any notices shall still be delivered, if at all, within the time frame specified in Section 5.

7. Termination of Repurchase Rights and Obligations. The repurchase rights and obligations of the Company set forth in Section 5 hereof shall terminate as to any shares of Stock upon the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended ("**Securities Act**").

8. Tax Consultation. Holder understands that Holder may suffer adverse tax consequences as a result of Holder's purchase or disposition of the shares of Stock. Holder represents that Holder has consulted with any tax consultants Holder deems advisable in connection with the purchase or disposition of the shares of Stock and that Holder is not relying on the Company for any tax advice.

9. Restrictive Legends and Stop-Transfer Orders.

9.1. Legends. Holder understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the shares of Stock together with any other legends that may be required by the Company or by state or federal securities laws:



THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT THEREOF OR UNLESS THE TRANSFER IS OTHERWISE EXEMPT FROM REGISTRATION. THE COMPANY MAY REQUIRE A WRITTEN OPINION OF COUNSEL (FROM COUNSEL ACCEPTABLE TO THE COMPANY) SATISFACTORY TO THE COMPANY, TO THE EFFECT THAT REGISTRATION IS NOT REQUIRED IN CONNECTION WITH SUCH PROPOSED SALE, PLEDGE, HYPOTHECATION OR OTHER TRANSFER. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE, HYPOTHECATION OR OTHER TRANSFER OF ANY INTEREST IN ANY OF THE SHARES REPRESENTED BY THIS CERTIFICATE.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN REPURCHASE OPTIONS HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH REPURCHASE OPTIONS ARE BINDING ON TRANSFEREES OF THESE SHARES.

9.2. Stop-Transfer Notices. Holder agrees that in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

9.3. Refusal to Transfer. The Company shall not be required (i) to transfer on its books any shares of Stock that have been sold or otherwise Transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such shares of Stock or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares of Stock shall have been so Transferred.

10. Additional Terms and Conditions of Award.

10.1. Nontransferability of Award. During the Restriction Period, the shares of Stock subject to the Award and not then vested may not be offered, sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) by the Holder or be subject to execution, attachment or similar process. Any attempt to so sell, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of such shares shall be null and void ab initio. Vested shares may not be sold or otherwise transferred in contravention of the terms of the Agreement.

10.2. Investment Representation. The Holder hereby represents and covenants that (a) any share of Stock acquired upon the vesting of the Award will be acquired for investment and not with a view to the distribution thereof within the meaning of the Securities Act, unless such acquisition has been registered under the Securities Act and any applicable state securities laws; (b) any subsequent sale of any such shares of Stock

shall be made in compliance with the Voting Agreement and either pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws; and (c) if requested by the Company, the Holder shall submit a written statement, in form satisfactory to the Company, to the effect that such representation (x) is true and correct as of the date of vesting of any shares of Stock hereunder or (y) is true and correct as of the date of any sale of any such share, as applicable. As a further condition precedent to the delivery to the Holder of any shares of Stock subject to the Award, the Holder shall comply with all regulations and requirements of any regulatory authority having control of or supervision over the issuance or delivery of the shares of Stock and, in connection therewith, shall execute any documents which the board of directors of the Company (the "**Board**") shall in its sole discretion deem necessary or advisable.

10.3. Withholding Taxes. As a condition precedent to the vesting of any shares of Stock subject to the Award, the Holder shall, upon request by the Company, pay to the Company such amount in cash as the Company may be required, under all applicable federal, state, local or other laws or regulations, to withhold and pay over as income or other withholding taxes (the "**Required Tax Payments**") with respect to the Award. If the Holder shall fail to advance the Required Tax Payments after request by the Company, the Company may, in its discretion, deduct any Required Tax Payments from any amount then or thereafter payable by the Company to the Holder.

10.4. Adjustment. In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Stock other than a regular cash dividend, the number and class of securities subject to the Award shall be appropriately adjusted by the Board. If any adjustment would result in a fractional security being subject to the Award, the Company shall pay the Holder in connection with the vesting, if any, of such fractional security, an amount in cash determined by multiplying (i) such fraction (rounded to the nearest hundredth) by (ii) the fair market value of such security on the vesting date as determined by the Board. The decision of the Board regarding any such adjustment and the fair market value of any fractional security shall be final, binding and conclusive.

10.5. Compliance with Applicable Law. The Award is subject to the condition that if the listing, registration or qualification of the shares of Stock subject to the Award upon any securities exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action is necessary or desirable as a condition of, or in connection with, the vesting or delivery of shares hereunder, the shares of Stock subject to the Award shall not vest or be delivered, in whole or in part, unless such listing, registration, qualification, consent, approval or other action shall have been effected or obtained, free of any conditions not acceptable to the Company. The Company agrees to use reasonable efforts to effect or obtain any such listing, registration, qualification, consent, approval or other action.



10.6. Delivery of Certificates. Upon the vesting of the Award, in whole or in part, the Company shall deliver or cause to be delivered to the Holder one or more certificates representing the number of vested shares of Stock. The Company shall pay all original issue or transfer taxes and all fees and expenses incident to such delivery.

10.7. Award Confers No Rights to Continued Employment. In no event shall the granting of the Award or its acceptance by the Holder, or any provision of the Agreement, give or be deemed to give the Holder any right to continued employment by the Company or prevent or be deemed to prevent the Company from terminating the Holder's employment at any time, with or without Cause.

10.8. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by Holder or by the Company forthwith to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on all parties.

10.9. Section 83(b) Election. By accepting this Agreement, the Holder acknowledges his understanding that he may file with the Internal Revenue Service an election pursuant to section 83(b) of the Internal Revenue Code of 1986, as amended (a "**Section 83(b) Election**"), no later than 30 days after the Grant Date, to include in his gross income the fair market value of the unvested shares of Stock subject to the Award as of the Grant Date. Before filing a Section 83(b) Election with the Internal Revenue Service, the Holder shall (i) notify the Company of such election by delivering to the Company a copy of the fully-executed Section 83(b) Election Form attached hereto as Exhibit A. and (ii) pay to the Company an amount sufficient to satisfy any taxes or other amounts required by any governmental authority to be withheld or paid over to such authority with respect to such unvested shares, or otherwise make arrangements satisfactory to the Company for the payment of such amounts through withholding or otherwise.

10.10. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Holder and his or her heirs, executors, administrators, successors and assigns.

10.11. Notices. All notices, requests or other communications provided for in this Agreement shall be made, if to the Company, to Paylocity Corporation, 3850 North Wilke Road, Arlington Heights, IL 60060, and if to Optionee, to the last known mailing address of Optionee contained in the records of the Company. All notices, requests or other communications provided for in this Agreement shall be made in writing either (a) by personal delivery, (b) by facsimile or electronic mail with confirmation of receipt, (c) by mailing in the United States mails or (d) by express courier service. The notice, request or other communication shall be deemed to be received upon personal delivery, upon confirmation of receipt of facsimile or electronic mail transmission or upon receipt by the party entitled thereto if by United States mail or express courier service; provided, however, that if a notice, request or other communication sent to the Company is not



received during regular business hours, it shall be deemed to be received on the next succeeding business day of the Company.

10.12. Governing Law. This Agreement, the Option and all determinations made and actions taken pursuant hereto and thereto, to the extent not governed by the laws of the United States, shall be governed by the laws of the State of Illinois and construed in accordance therewith without giving effect to principles of conflicts of laws.

10.13. Entire Agreement. The Plan and the Option Agreement are incorporated herein by reference. Capitalized terms not defined herein shall have the meanings specified in the Plan or the Option Agreement. This Agreement, the Plan, the Option Agreement, the Investment Representation

Statement and the Voting Agreement, if any, constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Holder with respect to the subject matter hereof, and may not be modified adversely to Holder's interest except by means of a writing signed by the Company and Holder.

10.14. Partial Invalidity. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions hereof and this Agreement shall be construed in all respects as if such invalid or unenforceable provision was omitted.

10.15. Amendment and Waiver. The provisions of this Agreement may be amended or waived only by the written agreement of the Company and the Holder, and no course of conduct or failure or delay in enforcing the provisions of this Agreement shall affect the validity, binding effect or enforceability of this Agreement.

10.16. Counterparts. This Agreement may be executed in two counterparts each of which shall be deemed an original and both of which together shall constitute one and the same instrument.

PAYLOCITY CORPORATION

By: _____

Accepted this day of , 20



**EXHIBIT A**

**ELECTION TO INCLUDE VALUE OF RESTRICTED PROPERTY
IN GROSS INCOME
IN YEAR OF TRANSFER UNDER CODE SECTION 83(B)**

The undersigned hereby elects pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (the "**Code**"), to include the value of the property described below in gross income in the year of transfer and supplies the following information in accordance with the regulations promulgated thereunder:

**1. The name, address and taxpayer identification number of the undersigned are:**

***[Name]***
***[Address]***
***[Social Security Number]***

**2. Description of the property with respect to which the election is being made:**

shares of Common Stock, par value $0.001 per share, of Paylocity Corporation, an Illinois corporation, granted to the undersigned as restricted stock.

**3. The date on which the property was transferred is [insert grant date].**

The taxable year to which this election relates is calendar year [20 ].

**4. The nature of the restrictions to which the property is subject is:**

If the employment of the undersigned terminates prior to specified dates, the undersigned will forfeit the property transferred to him.

**5. Fair market value:**

The fair market value (determined without regard to any restrictions) of the property with respect to which this election is being made was $ per share at the time of transfer.

**6. Amount paid for property:**

The taxpayer has paid $0 for the property.

**7. Furnishing statement to employer:**

A copy of this statement has been furnished to Paylocity Corporation.

Dated: _____

_____

**Exhibit 10.3.1**

**FIRST AMENDMENT TO THE**
**2008 PAYLOCITY CORPORATION EQUITY INCENTIVE PLAN**

THIS FIRST AMENDMENT (this "**Amendment**") to the 2008 Paylocity Corporation Equity Incentive Plan (the "**Plan**") is being adopted by the Board of Directors of Paylocity Corporation, an Illinois corporation (the "**Corporation**") on August 5, 2010. Capitalized terms used but not defined in this Amendment shall have the meanings ascribed to them in the Plan.

1. **Amendment to Section 1.5 of Plan**. Effective upon the approval of this Amendment by the holders of the Common Stock, par value $0.001 per share, and Series A Convertible Preferred stock, par value $0.001 per share, of the Corporation in accordance with Section 4.2 of the Plan, the first sentence of Section 1.5 of the Plan shall be amended and restated in its entirety to read as follows:

> "**1.5 Shares Available**. Subject to adjustment as provided in Section 4.7, an aggregate of 3,153,730 shares of Common Stock shall be available for grants of awards under this Plan, reduced by the aggregate number of shares of Common Stock which become subject to outstanding awards under the Plan and increased by the aggregate number of shares of Common Stock purchased by the Company pursuant to the Investor Rights Agreement entered into by and among the Company, Paylocity Management Holdings, LLC, the Key Executives named therein and the Investors named therein dated as of May 14, 2008 (the "**Investor Rights Agreement**"); provided, however, that if the purchase of shares of Common Stock by the Company pursuant to the Investor Rights Agreement is conditioned upon the granting of awards pursuant to the Plan to one or more specified eligible persons (whether by position or job function), then any awards issued to any such specified eligible person shall be deemed to have been made (i) from the shares purchased or purchasable pursuant to the Investor Rights Agreement before any awards may be made from any of the shares of Common Stock otherwise reserved pursuant the Plan and (ii) first from the shares which have the lowest purchase price per share for the Company pursuant to the Investor Rights Agreement."

2. **Preservation of Other Terms of Plan**. All other terms of the Plan shall remain unchanged by this Amendment.

3. **Governing Law**. This Amendment and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Illinois and construed in accordance therewith without giving effect to principles of conflicts or laws.

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IN WITNESS WHEREOF, the undersigned officer of the Corporation certifies that this Amendment was duly adopted by the Board on the date stated herein and shall be submitted to the stockholders for their approval. The Corporation hereby executes this Amendment as of the date first written above.

**PAYLOCITY CORPORATION**

By: /s/Steven Beauchamp
Steve Beauchamp, Chief Executive Officer

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**Exhibit 10.3.2**

**SECOND AMENDMENT TO THE**
**2008 PAYLOCITY CORPORATION EQUITY INCENTIVE PLAN**

**June 29, 2012**

THIS SECOND AMENDMENT (this "Amendment") to the 2008 Paylocity Corporation Equity Incentive Plan (the "Plan") is being adopted by the Board of Directors of Paylocity Corporation (the "Board"), an Illinois corporation (the "Corporation") on the date first written above. Capitalized terms used but not defined in this Amendment shall have the meanings ascribed to them in the Plan.

1. **Amendment to Section 1.5 of Plan**. Effective upon the approval of this Amendment by the holders of the Common Stock, par value $0.001 per share, and Series A Convertible Preferred Stock, par value $0.001 per share, of the Corporation in accordance with Section 4.2 of the Plan, Section 1.5 of the Plan shall be amended and restated in its entirety to read as follows:

"**1.5 Shares Available**. Subject to adjustment as provided in Section 4.7, an aggregate of 4,511,970 shares of Common Stock shall be available for grants of awards under this Plan, reduced by the aggregate number of shares of Common Stock which become subject to outstanding awards under the Plan and increased by the aggregate number of shares of Common Stock purchased by the Company pursuant to the Investor Rights Agreement entered into by and among the Company, Paylocity Management Holdings, LLC, and the Key Executives and Investors named therein, as amended and/or amended and restated from time to time (the "Investor Rights Agreement"); provided, however, that if the purchase of shares of Common Stock by the Company pursuant to the Investor Rights Agreement is conditioned upon the granting of awards pursuant to the Plan to one or more specified eligible persons (whether by position or job function), then any awards issued to any such specified eligible person shall be deemed to have been made (i) from the shares purchased or purchasable pursuant to the Investor Rights Agreement before any awards may be made from any of the shares of Common Stock otherwise reserved pursuant to the Plan and (ii) first from the shares which have the lowest purchase price per share for the Company pursuant to the Investor Rights Agreement. To the extent that shares of Common Stock subject to an outstanding award are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or by reason of the delivery or withholding of shares of Common Stock to pay all or a portion of the purchase price of an award, if any, or to satisfy all or a portion of the tax withholding obligations related to an award, then such shares of Common Stock shall again be available under this Plan. Notwithstanding the foregoing, the maximum number of shares that may be issued upon the exercise of Incentive Stock Options shall be equal to an aggregate of 4,511,970 shares of Common Stock, subject to adjustment as provided in Section 4.7.

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Shares of Common Stock shall be made available from authorized and unissued shares of Common Stock, or authorized and issued shares of Common Stock reacquired and held as treasury shares or otherwise or a combination thereof."

2. **Preservation of Other Terms of Plan**. All other terms of the Plan shall remain unchanged by this Amendment.

3. **Governing Law**. This Amendment and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Illinois and construed in accordance therewith without giving effect to principles of conflicts of laws.

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IN WITNESS WHEREOF, the undersigned officer of the Corporation certifies that this Amendment was duly adopted by the Board on the date stated herein and shall be submitted to the stockholders for their approval. The Corporation hereby executes this Amendment as of the date first written above.

**PAYLOCITY CORPORATION**

By: /s/Steven Beauchamp
Steve Beauchamp, Chief Executive Officer

***Signature Page to Second Amendment to the***
***2008 Paylocity Corporation Equity Incentive Plan***

**Exhibit 10.6**

**EMPLOYMENT AGREEMENT**

This Employment Agreement ("***Agreement***") is entered into by and between Paylocity, Inc. ("***Company***") and Steve Sarowitz ("***Employee***"), and is made effective July 1, 2013 (the "***Effective Date***").

The parties agree as follows:

1. Employment. Company agrees to continue to employ Employee, and Employee hereby accepts such continued employment, upon the terms and conditions set forth herein.

2. Duties.

2.1 Position. Employee is employed as Chairman of the Company and shall have the duties and responsibilities assigned by Company, both upon initial hire and as may be reasonably assigned from time to time. Employee shall perform faithfully and diligently all duties assigned to Employee.

2.2 Best Efforts/Full-time. Employee will expend Employee's best efforts on behalf of Company, and will abide by all policies and decisions made by Company, as well as all applicable federal, state and local laws, regulations or ordinances. When working on behalf of the Company, Employee will act in the best interest of Company at all times. Employee shall devote up to 25 hours/week to the performance of Employee's assigned duties for Company. Company will permit employee to devote additional time per week to Employee's other business ventures, contingent upon such ventures not violating Employee's duties of loyalty and non-competition and non-solicitation to Company. Employee must schedule such work so it otherwise does not conflict with the accomplishment of Employee's work hereunder. Further, nothing contained herein shall preclude Employee from (i) serving on the board of directors of any business corporation; (ii) serving on the board of, or working for any charitable or community organization, or (iii) pursuing Employee's personal financial and legal affairs, so long as the foregoing activities, individually or collectively, do not materially interfere with the performance of Employee's duties with Company.

3. Term of Employment.

3.1 Term. The employment relationship pursuant to this Agreement shall be for a term commencing on the Effective Date set forth above and continuing for a period of twenty-four (24) months following such date ("***Term***"), unless sooner terminated in accordance with Section 6 below. At the expiration of the Term, this Agreement and Employee's employment shall terminate.

4. Compensation.

4.1 Base Salary. As compensation for Employee's performance of Employee's duties hereunder, Company shall pay to Employee an initial base salary ("***Base Salary***") of two hundred seventy five thousand dollars ($275,000) per year, payable in accordance with the normal payroll practices of Company, less required deductions for state and federal withholding tax, social security and all other employment taxes and payroll deductions. In the event



Employee's employment under this Agreement is terminated by either party, for any reason, Employee will earn the Base Salary prorated to the date of termination.

5. Customary Fringe Benefits/Reimbursement of Expenses. Employee will be eligible for all customary and usual fringe benefits generally available to other employees of Company, including, without limitation, participation in the various employee benefit plans or programs provided to the employees of Company, subject to the terms and conditions of Company's benefit plan documents. Company reserves the right to change or eliminate the fringe benefits on a prospective basis, at any time, effective upon notice to Employee. In addition, Employee shall be reimbursed, at such intervals and in accordance with such Company policies as may be in effect from time to time, of any and all reasonable and necessary business expenses incurred by him for the benefit of the Company, including but not limited to travel expenses and other reasonable expenses.

6. Termination of Employee's Employment.

6.1 Termination for Cause by Company. Company may terminate Employee for Cause, if the Board approves the termination by a majority vote. For purposes of this Agreement, "***Cause***" shall mean just and reasonable cause, including (i) material dishonest or fraudulent behavior, or conviction of a felony; (ii) Employee's failure to refusal to perform specific directives of Company, which directives are consistent with the scope and nature of Employee's duties and responsibilities, and which are not remedied by Employee within thirty (30) days after written notice; (iii) any violation of the covenant not to disclose confidential information regarding the business of Company and its products as set forth in the Proprietary Rights Agreement; (iv) any act of material dishonesty by Employee which adversely affects the business of Company; or (v) Employee's drunkenness or use of drugs which interferes with Employee's performance of any of his obligations under this Agreement, and which is not remedied by Employee within 30 days after written notice. In the event Employee's employment is terminated in accordance with this subsection 6.1, Employee shall be entitled to receive only Employee's Base Salary then in effect, prorated to the date of termination, and all benefits accrued through the date of termination, as well as reimbursement for expenses made through such date in accordance with Section 5, above ("***Accrued Benefits***"). All other Company obligations to Employee pursuant to this Agreement will become automatically terminated and completely extinguished. Employee will not be entitled to receive the Severance Payment described in subsection 6.2 below.

6.2 Termination Without Cause by Company/Severance. Company may terminate Employee's employment under this Agreement during the Term without Cause, if the Board approves the termination by a majority vote. In the event of such termination during the Term, Employee will receive Employee's Base Salary then in effect, prorated to the date of termination, and Accrued Benefits. In addition, Employee will receive the following "***Severance Package***": (i) a "***Severance Payment***" equivalent to the Base Salary Employee would have received for the remainder of the Term, had Employee remained employed (e.g., if six months remains in the Term, Employee shall receive a Severance Payment equivalent to six months of Employee's Base Salary)(the total length of time remaining on the Term from the date of Termination, the "***Severance Period***"), payable over time during the Severance Period in equal installments, with the first installment payment made on the first payday following the 30th day

after Employee's termination of employment; and (ii) to the extent Employee participates in any medical, prescription drug, dental, vision and any other "group health plan" of the Company immediately prior to the date of termination, the Company shall pay to Employee in a lump sum a fully taxable cash payment in an amount equal to the monthly premium cost to Employee of continued coverage for Employee (and for Employee's spouse and dependents to the extent participating in such plans immediately prior to the Separation Date) that would be incurred for continuation coverage under such plans in accordance with Section 4980B of the Internal Revenue Code of 1986, as amended ("Code"), and Part 6 of Title 1 of the Employee Retirement Income Security Act of 1986, as amended, through the Severance Period, less applicable tax withholding, with such payment paid on the first Company payday following the 30th day after Employee's termination of employment. The Severance Package shall be paid provided Employee executes a full general release in a form acceptable to Company, releasing all claims, known or unknown, that Employee may have against Company arising out of or any way related to Employee's employment or termination of employment with Company, and such release has become effective in accordance with its terms prior to the 30th day following the termination date. Except for the Severance Package (if applicable), all other Company obligations to Employee under this Agreement will be automatically terminated and completely extinguished.

6.3 Resignation by Employee. Employee may voluntarily resign Employee's position with Company, at any time on thirty (30) days' advance written notice. In the event of Employee's resignation, Employee will be entitled to receive only Employee's Base Salary and Accrued Benefits through the date of Employee's termination. All other Company obligations to Employee pursuant to this Agreement will become automatically terminated and completely extinguished.

6.4 Application of Section 409A.

a. All references in this Agreement, however phrased, to the termination of Employee shall mean, and be deemed to occur where there has been, a "separation from service" within the meaning of the Section 409A Regulations. If any amount payable pursuant to this Agreement constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the "Section 409A Regulations") and this Agreement does not provide elsewhere that such payment or provision is to be made on a fixed date or schedule or on or with respect to a permissible payment event that complies with the Section 409A Regulations, then such payment or provision shall be made when Employee has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that Employee is a "specified employee" within the meaning of the Section 409A Regulations as of the date of Employee's separation from service, no amount that constitutes a deferral of compensation which is payable on account of Employee's separation from service shall be paid to Employee before the date (the "Delayed Payment Date") which is first day of the seventh month after the date of Employee's separation from service or, if earlier, the date of Employee's death following such separation from service, and all such amounts that would, but for this sentence, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

b. Company intends that income provided to Employee pursuant to this Agreement will not be subject to taxation under Section 409A of the Code. The provisions



of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Code. **However, Company does not guarantee any particular tax effect for income provided to Employee pursuant to this Agreement**. In any event, except for Company's responsibility to withhold applicable income and employment taxes from compensation paid or provided to Employee, Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to Employee pursuant to this Agreement.

c. Notwithstanding anything herein to the contrary, the reimbursement of expenses or in-kind benefits provided pursuant to this Agreement shall be subject to the following conditions: (1) the expenses eligible for reimbursement or in-kind benefits in one taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits in any other taxable year; (2) the reimbursement of eligible expenses or in-kind benefits shall be made the earliest of (i) the date called for under Company's applicable policies, (ii) the time provided by this Agreement, and (iii) the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

d. For purposes of Section 409A of the Code, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

6.5 Termination of Employment Upon Nonrenewal. Should this Agreement terminate at the expiration of the Term, Employee's employment with Company will terminate and Employee will only be entitled to Employee's Base Salary and Accrued Benefits through the last day of the current term. All other Company obligations to Employee pursuant to this Agreement will become automatically terminated and completely extinguished. Employee will not be entitled to receive the Severance Package described in subsection 6.2 above.

7. No Conflict of Interest. During the term of Employee's employment with Company, Employee must not engage in any work, paid or unpaid, that creates an actual conflict of interest with Company. Such work shall include, but is not limited to, directly or indirectly competing with Company in any way, or acting as an officer, director, employee, consultant, stockholder, volunteer, lender, or agent of any business enterprise of the same nature as, or which is in direct competition with, the business in which Company is now engaged or in which Company becomes engaged during the term of Employee's employment with Company, as may be determined by the Board in its sole discretion. If the Board believes such a conflict exists during the term of this Agreement, the Board may ask Employee to choose to discontinue the other work or resign employment with Company. Notwithstanding the foregoing, Company is aware of and permits Employee to work on other business ventures during Employee's employment, provided such work does not otherwise conflict with the accomplishment of Employee's work hereunder and such ventures do not compete with Company.

8. Confidentiality and Proprietary Rights. Employee agrees to continue to abide by Company's Employee Proprietary Information and Inventions Agreement (the "***Proprietary Rights Agreement***"), which is provided to Employee concurrently with this Agreement and is incorporated herein by reference.



9. Non-Competition. Employee agrees that during Employee's employment and for a period of twelve (12) months immediately following termination of such employment for any reason (the "***Non-competition Period***"), Employee shall not in any manner, directly or indirectly, through any person, firm or corporation, alone or as a member of a partnership or as an officer, director, stockholder, investor or employee of or consultant to any other corporation or enterprise or otherwise, engage or be engaged, or assist any other person, firm, corporation or enterprise in engaging or being engaged, in any business, in which Employee was involved or had knowledge, being conducted by, or contemplated by, Company or any of its subsidiaries as of the termination of Employee's

employment in any geographic area in which Company or any of its subsidiaries is then conducting such business. Employee agrees that in the event he breaches this covenant, the Non-competition Period shall be automatically extended by the length of time any such breach remains continuing. Nothing in this Agreement shall prohibit Employee from being (i) a stockholder in a mutual fund or a diversified investment company or (ii) an owner of not more than two percent of the outstanding stock of any class of a corporation, any securities of which are publicly traded, so long as Employee has no active participation in the business of such corporation.

10. Non-Solicitation. Employee acknowledges that Company's relationship with its clients, employees, vendors, suppliers and other persons with whom Company has a business relationship (hereinafter referred to as "***Prohibited Persons***"), are special and unique, and that Company's relationship with the Prohibited Persons may not be able to be replaced by Company. Employee further acknowledges that the protection of Company's Prohibited Persons is essential. Therefore, Employee expressly covenants and agrees that during his employment and for a period of twelve (12) months immediately following termination of such employment for any reason (the "***Non-solicitation Period***"), Employee will not at any time for himself or on behalf of any other person, firm, partnership or corporation: (1) induce, or attempt to induce, any Prohibited Persons either to refrain, or to cease doing business with Company; or (2) directly or indirectly solicit, hire, induce or otherwise engage a Prohibited Person in any competitive business. Employee agrees that in the event he breaches this covenant, the Non-solicitation Period shall be automatically extended by the length of time any such breach remains continuing.

11. Non-disparagement. Employee agrees that during Employee's employment by Company and thereafter, Employee will not make any voluntary statements, written or oral, or cause or encourage others to make any such statements that defame, disparage or in any way wrongfully criticize the personal and/or business reputations, practices or conduct of Company or any of its officers or directors.

12. General Provisions.

12.1 Employee Acknowledgements. Employee agrees that the restrictive covenants set forth in this Agreement, including Sections 7-11, are reasonable in all respects and are necessary to protect the legitimate business and competitive interests of Company.

12.2 Successors and Assigns. The rights and obligations of Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Company. Employee shall not be entitled to assign any of Employee's rights or obligations under this Agreement.



12.3 Waiver. Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, or prevent that party thereafter from enforcing each and every other provision of this Agreement.

12.4 Attorneys' Fees. Each side will bear its own attorneys' fees in any dispute unless a statutory section at issue, if any, authorizes the award of attorneys' fees to the prevailing party.

12.5 Severability. In the event any provision of this Agreement is found to be unenforceable by an arbitrator or court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such arbitrator or court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

12.6 Interpretation; Construction. The headings set forth in this Agreement are for convenience only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing Company, but Employee has participated in the negotiation of its terms. Furthermore, Employee acknowledges that Employee has had an opportunity to review and revise the Agreement and have it reviewed by legal counsel, if desired, and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

12.7 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the United States and the State of Illinois. The parties expressly consent to the personal jurisdiction of the state and federal courts located in Cook County, Illinois for any lawsuit arising from or related to this Agreement.

12.8 Notices. Any notice required or permitted by this Agreement shall be in writing and shall be delivered as follows with notice deemed given as indicated: (a) by personal delivery when delivered personally; (b) by overnight courier upon written verification of receipt; (c) by telecopy or facsimile transmission upon acknowledgment of receipt of electronic transmission; or (d) by certified or registered mail, return receipt requested, upon verification of receipt. Notice shall be sent to the addresses set forth below, or such other address as either party may specify in writing.

**12.9 Waiver of Jury Trial. THE PARTIES HEREBY IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY PROCEEDING (WHETHER BASED IN CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR EMPLOYEE'S EMPLOYMENT BY THE COMPANY (INCLUDING, BUT NOT LIMITED TO, ANY TERMINATION OF EMPLOYMENT) OR ANY TRANSACTION OR AGREEMENT CONTEMPLATED HEREBY OR THE ACTIONS OF ANY PARTY HERETO IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT HEREOF.**



12.10 Survival. Sections 6 ("***Termination of Employee's Employment***"), 7 ("***No Conflict of Interest***"), 8 ("***Confidentiality and Proprietary Rights***"), 9 ("***Non-Competition***"), 10 ("***Non-Solicitation***"), 11 ("***Non-disparagement***"), and 12 ("***General Provisions***") of this Agreement shall survive Employee's employment by Company.

12.11 Entire Agreement. This Agreement, including the Proprietary Rights Agreement incorporated herein by reference, constitutes the entire agreement between the parties relating to this subject matter and supersedes all prior or simultaneous representations, discussions, negotiations, and agreements, whether written or oral. This Agreement may be amended or modified only with the written consent of Employee and the Company. No oral waiver, amendment or modification will be effective under any circumstances whatsoever.

12.12 Counterparts. This Agreement may be executed simultaneously in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument. Delivery of a copy of this Agreement bearing an original signature by facsimile

transmission or by electronic mail in "portable document format" form shall have the same effect as physical delivery of the paper document bearing the original signature.

**THE PARTIES TO THIS AGREEMENT HAVE READ THE FOREGOING AGREEMENT AND FULLY UNDERSTAND EACH AND EVERY PROVISION CONTAINED HEREIN. WHEREFORE, THE PARTIES HAVE EXECUTED THIS AGREEMENT ON THE DATES SHOWN BELOW.**

Steve Sarowitz

Dated: 6/4/2013 /s/Steve Sarowitz

Paylocity, Inc.

Dated: 6/4/2013 By: /s/Steve Beauchamp
Steve Beauchamp, Chief Executive Officer

**COMMERCE POINT II**
ARLINGTON HEIGHTS, ILLINOIS

OFFICE LEASE

Between

**3850 WILKE L.L.C.,**
**an Illinois limited liability company**

Landlord,

and

**PAYLOCITY CORPORATION,**
**an Illinois corporation**

Tenant

Dated: **January 12, 2007**

**TABLE OF CONTENTS**





**TABLE OF CONTENTS**
(continued)

**COMMERCE POINT II**
**LEASE**

**3850 WILKE L.L.C.**, an Illinois limited liability company ("**Landlord**"), leases to **PAYLOCITY CORPORATION**, an Illinois corporation ("**Tenant**"), and Tenant accepts that certain portion of the premises, consisting of the entire first and second floors, 3850 N. Wilke Road, Arlington Heights, Illinois ("**Premises**"), as shown on the plan attached hereto, marked Exhibit "A" and made a part hereof and consisting of forty-five thousand four hundred twenty-seven (45,427) rentable square feet being forty-eight and 25/100 percent (48.25%) of the total rentable square feet situated in that certain building known as Commerce Point II, located at 3850 N. Wilke Road, Arlington Heights, Illinois 60004 which building, together with the walkways, driveways, lobbies, and parking areas are hereinafter collectively referred to as the "**Building**." The Building is legally described in Exhibit "B" attached hereto and made a part hereof.

1. **TERM**. The term of this Lease shall commence on July 1, 2007 ("**Commencement Date**"), and shall terminate on March 31, 2016, unless sooner terminated as herein provided ("**Term**").

2. **RENT**. Tenant shall pay rent and other payments reserved and required under this Section and any other section of this Lease to the order of 3850 Wilke L.L.C. and deliver same to the Landlord at the office of First American Properties, L.L.C., 3436 N. Kennicott, Arlington Heights, Illinois 60004, or at such other place as Landlord may hereafter designate. The rent and other payments, together with all other amounts becoming due from Tenant to Landlord hereunder, are herein collectively referred to as the "**Rental**" or "**Rent**." All Rental except as otherwise specifically provided or hereafter otherwise designated shall be made payable to Landlord without notice or demand, and without abatement, deduction, counterclaim or set off.

Subject to rent adjustments as set forth herein, Tenant shall pay to Landlord annual rent in equal monthly installments ("**Base Rent**") on the first day of the first full calendar month following the Commencement Date and a like sum on or before the first day of each and every successive month thereafter during the term hereof pursuant to the following schedule:

| Lease Months | Annual Base Rent | Monthly Base Rent |
|---|---|---|
| 7/1/07 – 6/30/08 | $ 746,365.61 | $ 62,197.13 |
| 7/1/08 – 6/30/09 | $ 769,079.11 | $ 64,089.93 |
| 7/1/09 – 6/30/10 | $ 791,792.61 | $ 65,982.72 |
| 7/1/10 – 6/30/11 | $ 814,506.11 | $ 67,875.51 |
| 7/1/11 – 6/30/12 | $ 837,219.61 | $ 69,768.30 |
| 7/1/12 – 6/30/13 | $ 859,933.11 | $ 71,661.09 |
| 7/1/13 – 6/30/14 | $ 882,646.61 | $ 73,553.88 |
| 7/1/14 – 6/30/15 | $ 905,360.11 | $ 75,446.68 |
| 7/1/15 – 3/31/16 | $ 928,073.61 | $ 77,339.47 |

Notwithstanding anything to the contrary, Tenant shall not be required to pay Base Rent for the months of July 1, 2007 through June 30, 2008 inclusive, provided Tenant shall pay Base Rent for the July 1, 2008 month contemporaneously with the execution of this Lease.

Tenant agrees to pay to Landlord a late charge of Twenty-Five and no/100 Dollars ($25.00) per day for any and all past due rentals, additional rentals, and/or other sums due to Landlord pursuant to the terms of this Lease. Late charges are computed from the fifth business day following the first day of each month.

If the term of this Lease commences on other than the first day of the month, there shall be paid on the Commencement Date, a pro rata portion of Base Rent based on the number of days remaining in such month. If the term of this Lease ends on a day other than the last day of the month, the last monthly payment of Base Rent shall be a pro rata portion of Base Rent based on the number of days in such month prior to and including the last day of the term of this Lease.

3. **ADDITIONAL RENT**. It is mutually understood that the Base Rent does not provide for the payment of any taxes on the Building or any parking area and structure provided for use of the Tenant and officers, employees, agents, customers and invitees thereof of the Building or for the cost of operation and maintenance of the Building. In order that the rent payable hereunder shall reflect any such sums, Tenant agrees to pay as additional rent hereunder ("**Additional Rent**") a sum equal to forty-eight and 25/100 percent (48.25%), which is the proportionate share of Tenant's Premises determined as the percentage of rentable square feet occupied by Tenant (45,427 rentable square feet) compared with the rentable square feet of the Building (94,143 rentable square feet) ("**Tenant's Pro Rata Share**") of the:

A. Taxes (as hereinafter defined) which shall become due and are payable during any calendar year (or portions of any calendar year, pro rated). The term "**Taxes**" shall mean:

(i) All taxes and assessments, of every kind and nature, special or otherwise, levied upon or with respect to the Building, including, without limitation, general real property taxes, taxes imposed by federal, state or local governments (excluding income, franchise,

capital stock, federal and state estate and inheritance taxes, and taxes based on receipt of rentals), and any personal property taxes imposed upon fixtures, machinery, apparatus, systems and appurtenances in, upon or used in connection with the Building or the operation thereof. If at any time during the Term the method of taxation then prevailing shall be altered so that any tax, assessment, levy, imposition or charge or any part thereof, shall be imposed upon Landlord in place, or partly in place, of any such taxes or increase therein, heretofore described in this Section 3.A, and/or shall be measured by or be based in whole or in part upon the Building or the rents or other income therefrom, then all such taxes, assessments, levies, impositions or charges or part thereof, to the extent that such items would be payable if the Building were the only property of Landlord, subject thereto and as if the rent and other income received by Landlord from the Building were the only income of Landlord. In addition, any personal property taxes or any increase in the Taxes by reason of capital improvements, nonstandard or special installations, alterations or



fixtures made by or for the benefit of the Tenant to the Premises shall be paid for by the Tenant.

(ii) Anything to the contrary notwithstanding, the Tenant shall not be required to pay Tenant's Pro Rata Share of Taxes, until such Taxes paid by Landlord annually exceed Three Hundred Seventy-Six Thousand Five Hundred Seventy-Two and 00/100 Dollars ($376,572.00) ("**Tax Stop**"). Landlord shall be required to pay all Taxes to the extent such Taxes do not exceed the Tax Stop.

B. Operating Expenses (as hereinafter defined) which Landlord shall pay or become obligated to pay in respect of any calendar year. The term "**Operating Expenses**" shall mean:

(i) All reasonable interior cleaning expenses paid or incurred by Landlord (to be provided to Tenant five (5) days per week).

(ii) All reasonable expenses incurred or paid on behalf of Landlord or which the Landlord reasonably determines it would have so paid or incurred had the Building been one hundred percent (100%) occupied in connection with the ownership, operation and maintenance of the Building and which, in accordance with generally accepted accounting practice as applied to the ownership, operation, repair and maintenance of first-class office buildings and parking areas, are properly chargeable to such ownership, operation, repair, and maintenance, including, without limitation, the cost of window washing, cleaning supplies, sales or use taxes, snow removal, landscaping, scavenger service, janitorial services for areas of the Building used in common by all tenants, invitees of the Building, security personnel, workers' compensation, unemployment and all other insurance premiums, fuel costs, utility costs net of payments made by tenants, legal and accounting fees expended to lower real estate taxes and such management expenses as are incurred or paid by Landlord to operate the Building including a reasonable management fee, as determined by Landlord.

(iii) Anything to the contrary notwithstanding, Tenant shall not be required to pay Tenant's Pro Rata Share of Operating Expenses until such Expenses exceed the Operating Expenses paid by Landlord during the calendar year 2008 ("**Operating Expenses Stop**"). Landlord shall be required to pay all Operating Expenses to the extent such Operating Expenses do not exceed the Operating Expenses Stop.

(iv) Operating Expenses shall not include (1) any interest expense on mortgages placed upon the Building, or (2) the cost of any work or service performed in any instance for any tenant (including Tenant) at the cost of such tenant.

As soon as practicable in each year during the Term and in the calendar year next following the year in which this Lease expires, Landlord shall deliver to Tenant a statement ("**Landlord's Statement**") setting forth the amount of Operating Expenses and



Taxes paid or incurred by Landlord during the immediately preceding year. Within thirty (30) days after delivery of such statement, Tenant shall pay to Landlord, as Additional Rent, Tenant's Pro Rata Share of any Taxes in excess of the Tax and Operating Expenses Stop for the immediately preceding calendar year, less any and all amounts paid in connection with said costs and expenses during the immediately preceding year.

Notwithstanding the preceding paragraph, Landlord may bill Tenant for its Pro Rata Share of Taxes in excess of the Tax Stop immediately after Landlord shall pay any such Taxes, whereupon Tenant shall pay to Landlord, as Additional Rent, Tenant's Pro Rata Share of any such Taxes in excess of the Tax Stop, less any and all amounts theretofore paid by Tenant for said Taxes.

After delivery of Landlord's Statement as above provided and determination of the amount of the payment to be made by Tenant, including Tenant's Pro Rata Share of Taxes and Operating Expenses, if any, the monthly installment of Rent then being paid by Tenant shall be increased to one-twelfth (1/12) of the amount of Taxes and Operating Expenses, if any, which Landlord reasonably calculates to be payable by Tenant for the year in which Landlord's Statement is delivered. Such increase shall be effective as of January 1 of the year in which the Landlord's Statement is received by Tenant; and upon receipt thereof, Tenant shall thereupon pay to Landlord the amount of such increase payable from January 1 of said year until the end of the month in which Tenant receives Landlord's Statement. The adjusted monthly Rental as determined hereinabove shall be paid by Tenant until receipt by Tenant of Landlord's Statement in the next succeeding calendar year. If the Term of this Lease ends on other than the last day of a calendar year, Tenant's Pro Rata Share shown on the statement delivered after the end of the term shall be reduced proportionately and any payment due shall also be apportioned and paid as aforesaid.

Landlord shall keep and make available to Tenant or its representative in Landlord's office for a period of ninety (90) days after delivery of Landlord's Statement, records in reasonable detail of the Taxes and Operating Expenses paid for the period covered by such Statement and shall permit Tenant's representative, at Tenant's cost and expense, to examine such records as may reasonably be required to verify such Statement at reasonable times during business hours. Unless Tenant takes written exception to Landlord's Statement within ninety (90) days after Landlord's Statement is received by Tenant, such Statement shall be considered as final and accepted by Tenant. In the event Tenant has overpaid its proportionate share of common area maintenance or real estate taxes ("**Overpayment**"), Landlord shall adjust Tenant's monthly rental for the succeeding year or if the Lease has terminated, will refund any excess to Tenant within thirty (30) days. If the Overpayment is greater than six percent (6%), Landlord shall pay all of Tenant's reasonable costs and expenses, not exceeding One Thousand and 00/100 Dollars ($1,000.00), in connection with Tenant's examination and audit of Landlord's books and records.

Anything to the contrary notwithstanding, in computing Tenant's obligations to pay either its Pro Rata Share of Taxes or Pro Rata Share of Operating Expenses, Landlord shall not collect from all tenants within the Building more than 100% of all Taxes or



Operating Expenses paid by Landlord and if it so collects in excess of 100% it shall immediately remit to Tenants its Pro Rata Share of the excess amount paid.

All provisions contained in this Section shall survive the expiration or termination of this Lease.

4. **CONDITION OF PREMISES**. Except for latent defects not discoverable within ninety (90) days of the original execution date of the Lease, Tenant's taking possession shall be conclusive evidence as against Tenant that the Premises were in good order and satisfactory condition when Tenant took possession. Landlord represents that the Building complies with all municipal ordinances and codes and satisfies the requisites of the Americans with Disabilities Act (ADA). Except for the foregoing, no promise of Landlord to alter, remodel or improve the Premises of the Building and no representation respecting the condition of the Premises or the Building have been made by or on behalf of Landlord to Tenant except to the extent expressly set forth herein or made a part hereof. Specifically, except for the foregoing, Tenant accepts Premises in an "as is" condition.

A. It shall be Tenant's obligation to determine whether the Premises comply with the appropriate governmental regulations for Tenant's intended use. Landlord makes no warranty as to the Premises' suitability for any particular use. Tenant shall make all repairs, alterations and other renovations (collectively the "**Improvements**") of the Premises which are necessary to make the Premises fit for its occupancy and for the purposes described herein at its expenses and costs subject to Landlord paying Tenant a Tenant Improvement Allowance as provided in subsection (K) hereof. Such remodeling and renovation shall be undertaken in conformance with the provisions of this Section 4.

B. Within thirty (30) days of beginning construction, Tenant shall submit to Landlord two sets of prints of office design drawings showing the desired design character and finishing of the Premises.

C. If the design drawings are returned to Tenant with comments, but not bearing the approval of Landlord, such design drawings shall be immediately revised by Tenant and resubmitted to Landlord within three (3) days of receipt by Tenant. Landlord agrees that its approval shall not be unreasonably withheld.

D. Promptly following the date on which the design drawings bearing Landlord's approval (with or without suggested modifications) are returned to Tenant, Tenant, at its sole cost and expense, shall cause working drawings and specifications (the "**Plans**") for the Premises based on the design drawings as approved by Landlord to be prepared.

E. Landlord shall review the Plans and shall notify Tenant, within three (3) days of receipt of the Plans, of the matters, if any, in which the Plans fail to conform to the approved design drawings or otherwise fail to meet with Landlord's approval. Landlord agrees that is approval shall not be unreasonably withheld.

F. Construction of the Improvements shall be completed in accordance with the Plans approved by Landlord, shall be carried out in a good, workmanlike and prompt



manner, shall comply with all applicable statutes, laws, ordinances, regulations, rules, orders and requirements of the authorities having jurisdiction thereof, and shall be subject to inspection and monitoring by Landlord.

G. Immediately following Landlord's approval of the Plans, Tenant shall obtain all permits and other governmental approvals required for construction of the Improvements.

H. Prior to the commencement of construction of the Improvements, Tenant shall provide Landlord with the following:

(i) Certification showing evidence of insurance as required by all sections of the Lease for both Tenant and Tenant's contractors. Such certificates shall state that the required coverage shall remain in force for the duration of construction.

(ii) Copy of all required building and/or special permits and approvals issued by the appropriate governmental authorities for the Improvements.

I. Upon completion of construction of the Improvements and prior to opening for business, Tenant shall provide Landlord with the following:

(i) A copy of the certificate of occupancy.

(ii) Lien waivers or substitution documentation acceptable to the title company facilitating draw requests from all contractors, subcontractors and material suppliers.

J. Any roof penetration shall be performed only by Landlord's contractors. Work performed by any other contractor will void roof warranty and be deemed a default under the Lease.

K. Tenant shall be entitled to install a generator within the Building's mechanical room, subject to satisfying Village of Arlington Heights' code requirements. Landlord shall have no responsibility with respect to such generator, and Tenant shall remove same upon termination of the Lease and restore the area to the condition existing at the time of Lease execution, reasonable wear and tear excepted. In the event another tenant requests the right to install a generator for its premises and such request causes Landlord to increase the size of the mechanical room thereby reducing underground parking, Tenant's right to park within the indoor parking area shall be reduced accordingly to accommodate the larger mechanical room.

L. Landlord agrees to pay Tenant a construction allowance not to exceed One Million Six Hundred Thirty-Six Thousand Two Hundred Eighty and 54/100 Dollars ($1,636,280.54) of Tenant's documented cost to improve the Premises ("**Tenant Improvement Allowance**"). Tenant may make periodic draw requests (not to exceed three (3) draws during construction of the Improvements). Provided that no Event of Default exists under this Lease at the time a draw is requested, said amount will be paid



to Tenant within thirty (30) days after Tenant furnishes Landlord and title company disbursing such funds, the following:

(i) Sworn statement from contractor and subcontractor to owner from Tenant listing all contractors and suppliers Tenant contracted with in connection with the work being paid for with such draw, together with the cost of each contract, all in a form reasonably acceptable to the title company.

(ii) Mechanic's lien releases from the general contractor and all other contractors and suppliers who have performed work or furnished supplies (or substitution documentation acceptable to the title company facilitating draw requests) for or in connection with Tenant's work at the Premises for which payment is being sought (including all parties listed in the affidavits referenced in subsection L(i) above) or otherwise provides evidence that all sums due and payable to such parties have been paid.

(iii) To the extent Tenant does not spend the entire Tenant Improvement Allowance on construction of the Premises, such amount may be used toward furniture, telecommunications equipment and to the extent there is any remaining amounts not used, such amount may be applied to Rent next due.

5. **USE**. Tenant shall use and occupy the Premises only for a general office and for no other purpose. Tenant's use of the Premises shall at all times conform to all applicable laws, ordinances, regulations and codes and to the requirements of any applicable rating bureau or other body exercising similar functions.

6. **REPAIRS**. Tenant will, at its own expense, keep the Premises in good order, repair and tenantable condition at all times during the Term of this Lease. Except for repairs and restorations to be made by Landlord pursuant to the provisions of Sections 11 and 17 hereof, Tenant shall promptly and adequately repair all damage to the Premises and replace or repair all damaged or broken glass, fixtures and appurtenances, including but not limited to light bulbs and exit light bulbs. Tenant shall provide Landlord with evidence of such inspections and repairs. Landlord may, but shall not be required to, enter the Premises at all reasonable times to make such repair, alterations, improvements and additions, including, without limitation, ducts, conduits, pipes, lines, wires, drains and flues and all other facilities for plumbing, electricity, heating and air conditioning, as Landlord shall desire or deem necessary to the Premises or the Building or to any equipment located in the Building or as Landlord may be required to do by governmental authority or court order or decree.

7. **ALTERATIONS**. Tenant may, with prior approval from Landlord and at its expenses, make alterations and improvements to the Premises except that Tenant shall not make any structural alterations to the Building. Tenant shall not be required to remove any alterations, improvements and additions made by Tenant nor shall Tenant be required to remove any alterations or restore the Building to its original condition upon termination of this Lease, at which time such alterations shall become Landlord's property and shall remain upon the Premises, without compensation to Tenant. Notwithstanding the foregoing, if any alterations or improvements of Tenant have materially changed, altered or damaged the structure of the



Building, Tenant shall repair or restore the Building to its prior condition, ordinary wear and tear excepted. Except as provided in Section 21, nothing herein shall give Landlord any interest in Tenant's trade fixtures, wall fixtures, removable paneling, computers, equipment, furniture, signs, goods and materials used in Tenant's business, and all other property of Tenant ("**Tenant's Property**"). Except as otherwise provided herein, Tenant shall have the right at any time and from time to time to remove Tenant's Property, provided that if removal of any of Tenant's Property damages any part of the Building, Tenant shall repair such damage. Any of Tenant's Property which is not removed upon termination of this Lease shall become the property of Landlord.

8. **COVENANTS AGAINST LIENS**. Tenant covenants and agrees not to suffer or permit any lien of mechanics or materialmen to be placed against the Building or any part thereof, and, in the case of any such lien attaching, to immediately pay off and remove same. Tenant has no authority or power to cause or permit any lien or encumbrance of any kind whatsoever, whether created by act of Tenant, operation of law or otherwise, to attach or to be placed upon the Building or any part thereof, and any and all liens and encumbrances created by Tenant shall attach only to Tenant's interest in the Premises.

9. **WAIVER OF CLAIMS**. To the extent not expressly prohibited by law and except in the case of the negligence of the Landlord or Landlord's agents, Tenant hereby waives all rights to recover from, and all liability of, the beneficiaries of Landlord and its officers, agents, servants, employees and mortgagees for any damage either to person or property sustained by Tenant or by other persons due to the Building or any part thereof or any appurtenances thereof becoming out of repair, or due to the happening of any accident or occurrence in or about the Building or any part thereof. This provision shall apply particularly (but not exclusively) to damage caused by water, snow, frost, steam, sewage, gas, sewer gas or odors or by the bursting of leaking of pipes (including the sprinkler systems), faucets and plumbing fixtures, and shall apply without distinction as to the person whose act or neglect was responsible for the damage and whether the damage was due to any of the causes specifically enumerated above or to some other cause of an entirely different kind. Tenant further agrees that all personal property and fixtures installed upon the Premises shall be there at the risk of Tenant only and that Landlord shall not be liable for any damage thereto or theft thereof.

10. **PARKING AREA**. Tenant and its officers, employees, agents, customers and invitees shall have the non-exclusive right, in common with Landlord and all others to whom Landlord has or may hereafter grant rights, to use its pro rata share of surface parking areas of the Building and adjacent parking areas as designated from time to time by Landlord, subject to such reasonable rules and regulations as Landlord may from time to time impose, including the designation of specific areas in which cars owned by Tenant, its officers, employees and agents must be parked, and reasonable limitation of the times during which portions of the parking area may be used. Tenant shall, upon request, furnish to Landlord the license numbers and descriptions of the vehicles operated by Tenant and its officers, employees and agents. Tenant shall also have the right to seventeen (17) underground reserved spaces at no additional cost to Tenant. Tenant agrees to abide by all rules and regulations and to use its best efforts to cause its officers, employees, agents, customers and invitees to conform thereto. Landlord may at any time close temporarily any part of the parking areas to make repairs or changes, to prevent the acquisition of public rights in such area, or to discourage non-customer parking, and may do

such other acts in and to the parking area as in its judgment may be desirable to improve the convenience thereof. Tenant shall not at any time interfere with the rights of Landlord and other Tenants, its and their permitted concessionaires, officers, employees, agents, customers and invitees to use any part of the parking areas.

11. **RIGHTS RESERVED BY LANDLORD**. Landlord shall have the following rights:

A. To change the Building's name or street address.

B. To install, affix and maintain any and all signs on the exterior and/or interior of the Building and in the parking areas. Pursuant to Section 41 hereof, Tenant shall have signage rights on the exterior façade of the Building.

C. To show the Premises to prospective tenants at reasonable hours during the last 12 months of the Term upon reasonable prior notice to Tenant.

D. To decorate or make repairs, alternations, additions, or improvements, whether structural or otherwise, in and about the Building, or any part thereof, which Landlord may deem necessary or which may be required by the Village of Arlington Heights or by any other governmental agency having jurisdiction over the Premises or the Building, and for such purposes to enter upon the Premises, and, during the continuance of any said work, temporarily to close doors, entryways, public space and corridors in the Building and to interrupt or temporarily suspend Building services and facilities, provided that Landlord will at all times use its best effort to maintain reasonable accessibility to the Premises, and to minimize any disruption of Tenant's business. Landlord will notify Tenant at least forty-eight (48) hours prior to any entry onto the Premises for making improvements (except in case of an emergency) and attempt to perform the improvements during non-business hours, if such scheduling of contractors can be arranged without additional cost to Landlord.

E. Landlord shall have the right to place the Tenant's name in or about the Building, including on the exterior walls contiguous to the Premises or on the doors or windows of the Premises and on the Directory Boards, in such color, style, size and material as the Landlord deems consistent with the signage standards of the Building. If at Tenant's request Landlord changes or modifies the signage after initial installation, such cost shall be paid by Tenant upon invoice by Landlord.

F. To grant to anyone the exclusive right and privilege to conduct any business in the Building, and such exclusive right and privilege will be binding upon Tenant, provided such exclusive right shall not operate to exclude Tenant from the use expressly permitted herein.

G. To approve the weight, size and location of safes, printing machinery, computers and other heavy equipment and articles in and about the Premises and the Building and to require all such items and furnishings and similar items to be moved into and/or out of the Building and Premises only at such times and in such manner as Landlord shall direct in writing. Movements of Tenant's property into or out of the



Building and within the Building are entirely at the risk and responsibility of Tenant and Landlord reserves the right to require permits before allowing any such property to be moved into or out of the Building.

H. To close the Building after regular working hours and on Saturdays, Sundays and legal holidays subject, however, to Tenant's and Tenant's patients' right to admittance twenty-four (24) hours per day, seven (7) days per week, under a separate entry system and under such regulations as Landlord may prescribe from time to time, which may include by way of example but not of limitation, that persons entering or leaving the Building identify themselves to a watchman, by registration or otherwise and that said persons establish their right to enter or leave the Building. Landlord represents that the Building is open during the week from approximately 6:30 a.m. to 7:00 p.m., and on Saturday from 8:00 a.m. to 2:00 p.m. HVAC is provided Monday through Friday, 7:00 a.m. to 6:00 p.m.

I. At the time Tenant vacates the Premises, to decorate, remodel, repair, alter or otherwise prepare the Premises for re-occupancy.

J. To constantly have pass keys to the Premises.

K. To inspect the Premises at any reasonable time.

L. To erect, use and maintain ducts, conduits, pipes, lines, wires, drains and flues, and appurtenances thereto, in and through the Premises at reasonable locations.

12. **USE OF PREMISES**. Tenant agrees to observe the following covenants and to comply with all rules and regulations that Landlord may hereafter from time to time make for the Building. Landlord shall not be liable in any way for damage caused by the non-observance by any of the other tenants of such similar covenants in their leases or of such rules and regulations.

A. Tenant shall occupy and use the Premises during the Term for the purpose specified in Section 5 hereof and non other, and shall not conduct itself, or permit its agents, employees or invitees to conduct themselves, in the Premises or in the Building, in a manner inconsistent with the character of the Building as an office building of the highest class or interfere with the comfort or convenience of other tenants.

B. Tenant shall not, without the prior written consent of Landlord, exhibit, sell, or offer for sale on the Premises or in the Building any article or thing except those articles and things essentially connected with the stated use of the Premises by Tenant.

C. Tenant will not make or permit to be made any use of the Premises which, directly or indirectly, is forbidden by public law, ordinance or governmental regulation.

D. Tenant shall not sell or offer to sell or permit to be sold or offered for sale in the Premises any foods or beverages, with the exception of vending machines for sale of food and beverages to its employees and invitees.

E. Tenant shall not advertise the business, profession or activities of Tenant conducted in the Building in any manner which violates the letter or spirit of any code of ethics adopted by any recognized association or organization pertaining to such business, profession or activities, and shall not use the name of the Building for any purposes other than that of the business address of Tenant, and Tenant shall never use any picture or likeness of the Building in any circulars, notices, advertisements or correspondence without Landlord's prior written consent.

F. Tenant shall not obstruct, or use for storage, or for any purpose other than ingress and egress, the public areas of the Building.

G. No additional locks or similar devices shall be attached to any door without Landlord's prior written consent and only upon the condition that Landlord shall have the keys to or combination of such additional locks or devices. Upon termination of this Lease or of Tenant's possession of the Premises, Tenant shall surrender all keys to the Premises and the Building.

H. After initial improvements pursuant to Section 4 hereunder, Tenant shall not, without the prior written consent of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed, make any alterations, improvements or additions to the Premises in an amount greater than Ten Thousand and 00/100 Dollar ($10,000.00). Landlord need not give any such consent but if Landlord so consents, it may impose such conditions with respect thereto as Landlord deems appropriate, including, without limitation, requiring Tenant to furnish Landlord with security for the payment of all costs to be incurred in connection with such work and insurance against liabilities which may arise out of such work, as determined by Landlord. The work necessary to make any alterations, improvements or additions to the Premises shall be done at Tenant's expense by employees of or contractors hired by Landlord except to the extent Landlord gives its prior written consent to Tenant hiring contractors. Tenant shall promptly pay to Landlord or to Tenant's contractors, as the case may be, when due, the cost of all such work and of all decorating required by reason thereof, and upon completion deliver to Landlord, if payment is made directly to contractors, evidence of payment, contractor's affidavits and full waivers of all liens for labor, services or materials, and Tenant shall defend and hold Landlord and the Building harmless from all costs, damages, liens and expenses related thereto. Before commencing any work in connection with alterations or additions, Tenant, if it shall perform such work using its own contractor (with prior written consent of Landlord, which consent shall not be unreasonable withheld, conditioned or delayed), shall furnish Landlord with certificates of insurance from all contractors performing labor or furnishing materials insuring Landlord against any and all liabilities which may arise out of or be connected in any way with said additions or alterations.

All work done by Tenant or its contractors pursuant to this Paragraph 12(I) shall be done in a first-class workmanlike manner using only good grades of materials and shall comply with all insurance requirements and all applicable laws and ordinances and rules and regulations of governmental departments or agencies. All required permits shall be obtained by Landlord at Tenant's expense.



If Tenant desires signal communication, alarm or other utility or service connections installed or changed, the same shall be made at the expense of Tenant, with prior written consent and under direction of Landlord and subject to the conditions of the preceding paragraphs of this Paragraph 12(I) hereof.

I. Tenant shall not install or operate any steam or internal combustion engine, boiler, pressure vessel, machinery, refrigerating or heating device or air conditioning apparatus in or about the Premises, or carry on any mechanical business therein, or use the Premises for housing accommodations or lodging or sleeping purposes, or do any cooking therein except in coffee pots or microwave ovens, or use any illumination other than electric light, or use or permit to be brought into the Building any flammable oils or fluids such as gasoline, kerosene, naphtha, and benzine, or any explosive, radioactive materials or other articles hazardous to life, limb or property or permit noxious odors to escape from the Premises. If the use of heat generating equipment by Tenant in the Premises affects the sprinkler system or temperatures otherwise maintained by the air conditioning system for normal business operations and thereby requires, in the reasonable judgment of Landlord, the modification of the air conditioning system, including installation of supplementary air conditioning units or diffusers in the Premises or additions to the sprinkler system as may be necessitated by fire department or insurance company requirements, Landlord reserves the right to perform such modification and all of the cost thereof shall be paid by Tenant to Landlord at the time of completion of such modification. Any increased expenses in maintaining the system resulting, in Landlord's reasonable opinion, from such modification and any increased expense in operating such system resulting from such modification shall be paid by Tenant within ten (10) days of presentation of an invoice. In addition, Tenant shall, at Tenant's expenses, perform all maintenance, repair and replacement on any supplementary air conditioning units installed in accordance with this Section, unless, in the exercise of its right hereby expressly reserved, Landlord elects to perform part or all of such maintenance at Tenant's expense. In addition, Tenant shall be responsible for any expenses resulting from Tenant exceeding the above-stated requirements and causing damage to the existing air conditioning system. Tenant shall not do or permit anything to be done, or keep or permit anything to be kept, in the Premises, which could increase the fire or other casualty insurance rates on the Building or the property therein, or which would result in any insurance company refusing to insure the Building or any such property in amounts reasonably satisfactory to Landlord. In the event that any use of the Premises by Tenant increases such cost of insurance, Tenant shall pay such increased cost to Landlord on demand, but such demand or acceptance of such payment shall not be construed as a consent by Landlord to Tenant's such use, or limit Landlord's further remedies under this Lease.

J. Tenant shall cooperate fully with Landlord to assure the effective operation of the Building's air conditioning, heating and ventilating systems.

K. Tenant shall not contract for any work or service which might involve the employment of labor incompatible with the Building employees or employees of contractors of Landlord or with the terms and conditions of any collective bargaining agreement to which Landlord or Landlord's agents or contractors may be a party.



Landlord reserves the right to require that any alterations or additions done by Tenant be done using Landlord's designated contractors or contractors approved by the Landlord but shall not unreasonably withhold or delay its consent to permitting Tenant from using its own contractors.

L. Prior to the Commencement Date, Tenant shall ascertain from Landlord the amount of electricity that can safely be used in the Premises, taking into account the capacity of the electrical wiring in the Building and the needs of other tenants in the Building, and shall not use more

than such safe capacity. Landlord's consent to the installation or use of electrical equipment shall not be construed to permit the use of more electricity than such safe capacity.

M. Tenant shall not use lamps in the ceiling light fixtures or window coverings of a color or style other than that approved by Landlord, and the color of all paint and other decorating materials used by Tenant on those portions of the building columns and partitions which are adjacent to the exterior walls shall be approved in writing in advance by Landlord, which consent shall not be unreasonably withheld.

N. Tenant shall keep the doors to the corridors and lobby closed except when in use for ingress and egress, and Tenant shall not place or allow anything to be placed against or near the doors to the corridors or lobby which may diminish the light in or be unsightly from the corridors or lobby.

O. Tenant will not install on any windows any window coverings or treatment without the prior written consent of Landlord or Landlord's managing agent.

13. **UTILITIES**. Landlord shall pay for utilities consumed in the Building: gas, water and electric, which shall be included as part of Operating Expenses and paid by Tenant, but only to the extent such costs exceed the Operating Expenses Stop. Tenant shall pay for electric consumption in the Premises through wall receptacles and overhead lighting, and for specific power needed for business equipment or machinery. Tenant may request HVAC to be furnished to the Premises at times other than set forth in Section 11H, by reasonable request to Landlord, for Landlord to be able to furnish such services. After-hours HVAC services shall be at the initial rate of One Hundred Ninety-Five and 00/100 Dollars ($195.00) per hour, which amount shall be periodically adjusted dependent upon actual utility costs to Landlord.

14. **QUIET ENJOYMENT**. Landlord represents that it has full power and authority to enter into this Lease. So long as Tenant is not in default in the performance of its covenants and agreements in this Lease, Tenant's quiet and peaceable enjoyment of the Premises shall not be disturbed or interfered with by Landlord. Landlord does hereby indemnify and hold Tenant harmless from any costs or expenses, including reasonable attorneys' fees, incurred by Tenant from the breach of Landlord covenants hereunder.

15. **INDEMNITY**.

A. Tenant agrees to protect, indemnify and save Landlord and its agents, servants or employees harmless from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation,



reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Landlord and its agents, servants or employees by reason of (a) any accident, injury or death to persons or loss or damage to property occurring on or about the Premises or any part thereof, or occurring in or about the Building and alleged to be due to any act or failure to act or any negligence or default under this Lease by Tenant, its contractors, agents or employees; (b) any failure on the part of Tenant to perform or comply with any of the terms of this Lease; (c) performance of any labor or services or the furnishing of any materials or property in respect to the Premises or any part thereof contracted for by Tenant. In case any action, suit or proceeding is brought against Landlord by reason of any such occurrence, Tenant shall, at Tenant's expense, resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel reasonably approved by Landlord.

B. Landlord agrees to protect, indemnify and save Tenant and its agents, servants or employees harmless from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Tenant and its agents, servants or employees by reason of (a) any accident, injury or death to persons or loss or damage to property occurring on or about the Premises or any part thereof, or occurring in or about the Building and alleged to be due to any act or failure to act or any negligence or default under this Lease by Landlord, its contractors, agents or employees; (b) any failure on the part of Landlord to perform or comply with any of the terms of this Lease; (c) performance of any labor or services or the furnishing of any materials or property in respect to the Premises or any part thereof contracted by Landlord.

16. **INSURANCE**. Tenant shall procure and maintain at its own cost policies of insurance insuring Landlord (and the beneficiaries of Landlord) and its agents and assigns and Tenant from all claims, demands or actions for injury to or death of any person in an amount of not less than One Million Dollars ($1,000,000.00) for injury to or death of more than one (1) person in any one occurrence in an amount of not less than One Million Dollars ($1,000,000.00), and for damage to property in an amount not less than One Million Dollars ($1,000,000.00) made by, or on behalf of, any person or persons, firm or corporation, arising from, related to or connected with the Premises. Said insurance shall also fully cover the indemnity provided for in Section 15 hereof. The insurance shall be in companies and in form and substance satisfactory to Landlord and any mortgagee of Landlord. The aforesaid insurance shall not be subject to cancellation except after at least thirty (30) days' prior written notice to Landlord. The original insurance policies (or certificates thereof satisfactory to Landlord) together with satisfactory evidence of payment of the premiums thereof, shall be deposited with Landlord prior to the Commencement Date and renewals thereof not less than thirty (30) days prior to the end of the terms of each such coverage.

17. **FIRE AND CASUALTY**. If the Premises or the Building (including machinery used in its operation) shall be damaged or destroyed by fire or other cause and if it appears that such Premises or Building may be repaired and restored within ninety (90) days after such damage, then Landlord shall commence to restore the Premises or Building within thirty (30) days after such damage, and shall repair and restore same with reasonable promptness.



Notwithstanding anything to the contrary herein contained, Landlord shall have no duty pursuant to this Section 17 to repair or restore any portion of the alterations, additions or improvements in the Premises or the decorations thereto, except to the extent that same were provided by Landlord at Landlord's cost. If Tenant desires any additional repairs or restoration beyond the lease improvements constructed by Landlord and existing immediately prior to destruction, and if Landlord consents thereto, the same shall be done by Landlord at Tenant's expense. If the damage renders the Premises untenantable in whole or in part and cannot reasonably be repaired or restored within one hundred eighty (180) days, or if Landlord elects to demolish the Building or cease its operation, either party shall have the right to cancel and terminate this Lease as of the date of such damage by giving notice to the other within said one hundred twenty (120) days after such damage shall have occurred. If Landlord does not elect to cancel and terminate this Lease as herein provided, Landlord shall repair and restore the Premises or Building with reasonable promptness. In the event any such damage not caused by the act or neglect of Tenant, its agents or servants, renders the Premises untenantable, and if this Lease shall not be canceled and terminated by reason of such damage, then Rent shall abate during the period beginning with the date of

such fire or other cause and ending with the date when the Premises are again rendered tenantable by an amount bearing the same ratio to the total amount of Rent for such period as the untenantable portion of the Premises bears to the entire Premises.

18. **MUTUAL WAIVER OF SUBROGATION RIGHTS**. (a) Whenever any loss, cost or damage or expense resulting from fire, explosion or any other casualty or occurrence is incurred by either of the parties to this Lease in connection with the Premises, and (b) such party is then covered in whole or in part by insurance with respect to such loss, cost, damage or expense, then the party so insured hereby releases the other party from any liability it may have on account of such loss, cost, damage or expense to the extent of any amount recovered by reason of such insurance and waives any right to subrogation which might otherwise exist in or accrue to any person on account thereof, provided that such release of liability and waiver of the right of subrogation shall not be operative in any case where the effect thereof is to invalidate such insurance coverage or increase the cost thereof (provided that in the case of increased costs, the other party shall have the right, within thirty (30) days following written notice, to pay such increased cost, thereupon keeping such release and waiver in full force and effect).

19. **EMINENT DOMAIN**.

A. In the event that all or a substantial part of the Building, or any part thereof which includes all or a substantial part of the Premises, shall be taken or condemned by any competent authority for any public or quasi-public use or purpose, and as a result thereof, the Premises cannot be used for the same purpose as prior to such taking, this Lease and the term and estate hereby granted shall cease and terminate upon and not before the date when the possession of the part so taken shall be required for such use or purpose, and Landlord shall be entitled to receive the entire award, Tenant hereby assigning to Landlord Tenant's interest therein, if any; provided however, if Landlord elects to make comparable space available to Tenant under the same rent and terms herein provided Tenant shall accept such space and this Lease shall then apply to such space.



B. If less than the whole or part of the Premises shall be so condemned or taken, and after such taking the Premises can be used for the same purpose as prior thereto, the Lease term shall cease only on the part so taken, as of the date possession shall be taken by such competent authority, and Tenant shall pay full Base Rent and Additional Rent up to that date (with appropriate refund by Landlord of such rent as may have been paid in advance for any period subsequent to the date possession is taken) and thereafter the Base Rent and Additional Rent shall be equitably adjusted. Landlord shall, at its expense, make all necessary repairs or alterations to the Building so as to constitute the remaining Premises a complete architectural unit, provided that Landlord shall not be obligated to undertake any such repairs and alterations if the cost thereof exceeds the award resulting from such taking.

C. If part of the Building shall be so condemned or taken, or if adjacent property or street shall be condemned or improved by a competent authority in such a manner as to require the use of any part of the Premises or of the Building, and in the opinion of Landlord, the Building should be demolished or restored in such a way as to alter the Premises materially, Landlord may terminate this Lease and the term and estate hereby granted by notifying Tenant of such termination within sixty (60) days following the taking of possession, and this Lease and the term and estate hereby granted shall expire on the date specified in the notice of termination, not less than sixty (60) days after the giving of such notice, as fully and completely as if such date were the date hereinabove set forth for the expiration of this Lease, and the rent hereunder shall be apportioned as of such date.

20. **DEFAULTS**.

A. Tenant further agrees that any one or more of the following events shall be considered an Event of Default as said term is used herein, that is to say, if:

(i) Tenant shall be adjudged an involuntary bankrupt, or a decree or order approving, as properly filed, a petition or answer against Tenant asking reorganization of Tenant under the Federal bankruptcy laws as now or hereinafter amended, or under the laws of any state, shall be entered, and such decree or judgment or order shall not have been relocated or stayed or set aside within sixty (60) days from the date of entry or granting thereof; or

(ii) Tenant shall file or admit the jurisdiction of the court and the material allegations contained in any petition in bankruptcy laws as now or hereafter amended, or Tenant shall institute any proceedings or shall give its consent to the institution of any proceedings for any relief of Tenant under any bankruptcy or insolvency laws or any laws relating to the relief of debtors, readjustment of indebtedness, reorganization, arrangements, composition or extension; or

(iii) Tenant shall make any assignment for the benefit of creditors or shall apply for or consent to the appointment of a receiver for Tenant or any of the property of Tenant; or



(iv) The Premises are levied upon by any revenue officer or similar officer; or

(v) A decree or order appointing a receiver of the property of Tenant shall be made and such decree or order shall not have been vacated, stayed or set aside within sixty (60) days from the date of entry or granting thereof; or

(vi) Tenant shall vacate the Premises or abandon the same for more than five (5) days during the Term hereof; or

(vii) Tenant shall default in any monthly payment of Rental required to be paid by Tenant hereunder or in the payment of any other sums required to be paid by Tenant hereunder when due as herein provided and such default shall continue for ten (10) days after notice thereof in writing to Tenant; or

(viii) Tenant shall fail to contest the validity of any lien or claimed lien and give security to Landlord to insure payment thereof, or having commenced to contest same and having given such security, shall fail to prosecute such contest with diligence, or shall fail to have the same released and satisfy any judgment rendered thereon, and such default continues for fifteen (15) days after notice thereof in writing to Tenant; or

(ix) Tenant shall default in keeping, observing or performing any of the other covenants and agreements herein contained to be kept, observed and performed by Tenant, and such default shall continue for thirty (30) days after notice thereof in writing to Tenant or in the case of a default not susceptible of being cured with due diligence within said thirty (30) day period, the time within which to cure same shall be extended for such period as may be necessary to cure same with due diligence; or

(x) Tenant shall repeatedly be late in payment of Rent or other charges required to be paid hereunder or shall repeatedly default in keeping, observing or performing of any other covenants or agreements herein contained to be kept, observed or performed by Tenant (provided notice of such payment or other default shall have been given to Tenant, but whether or not Tenant shall have timely cured any such payment or other defaults of which notice was given); or

(xi) If Tenant is a corporation, the transfer of part or all of its shares or assets voluntarily or by operation of law so as to result in a change in the control of said corporation by the person or persons owning a majority of its said shares or assets; or

(xii) Any matter described elsewhere in this Lease an Event of Default.

B. In the case of an Event of Default by Tenant:

(i) To the extent not inconsistent with any other terms and provisions hereunder, Landlord may terminate this Lease by giving to Tenant ten (10) day



written notice of Landlord's election to do so, in which event the Term of this lease shall end, and all right, title and interest of Tenant hereunder shall expire, on the date stated in such notice. To the extent that Tenant's default threatens life or limb to any person, or materially endangers the Premises or Building, as determined by the Landlord, in Landlord's sole discretion, no such notice shall be required;

(ii) Landlord may terminate the right of Tenant to possession of the Premises without terminating this Lease by giving written notice to Tenant that Tenant's right of possession shall end on the date stated on such notice, whereupon the right of Tenant to possession of the Premises or any part thereof shall cease on the date stated in such notice; and

(iii) Landlord may maintain Tenant's right to possession and enforce the provisions of this Lease by a suit or suits in equity or at law for the enforcement of any other appropriate legal or equitable remedy, including without limitation injunctive relief, and for recovery of all moneys due or to become due from Tenant under any of the provisions of this Lease.

C. In the case of a default by Landlord and failure to cure within the time provided herein, Tenant may terminate this Lease without further notice, in which event the term of this Lease shall end and all obligations of Tenant except as otherwise provided for herein shall cease on the date of such termination.

D. If Landlord exercises any of the remedies provided for in subparagraphs (i) and (ii) of the foregoing Section 20B, Tenant shall surrender possession of and vacate the Premises and immediately deliver possession thereof to Landlord, and Landlord may re-enter and take complete and peaceful possession of the Premises, with or without process of law.

E. If Landlord terminates the right of Tenant to possession of the Premises without terminating this Lease, such termination of possession shall not release Tenant, in whole or in part, from Tenant's obligation to pay the Rent hereunder for the full Term, and the aggregate amount of the Rent (based on the latest applicable rate of Base Rent and the rate of the latest determined Additional Rent) for the period from the date stated in the notice terminating possession to the end of the Term shall be immediately due and payable by Tenant to Landlord, together with any other monies due hereunder, and Landlord shall have the right to immediate recovery of all such amounts. In addition, Landlord shall have right from time to time, to recover from Tenant, and Tenant shall remain liable for, all Rent not theretofore accelerated and paid pursuant to the foregoing sentence and any other sums thereafter accruing as they become due under this Lease during the period from the date of such notice of termination of possession to the stated end of the Term. In any such case, Landlord shall make reasonable attempts to relet the Premises or any part thereof for the account of Tenant for such rent, for such time (which may be for a term extending beyond the Term of this Lease) and upon such terms as Landlord, in Landlord's sole discretion, shall determine. Landlord shall not be required to accept any tenant offered by Tenant but shall not be unreasonable in rejecting any



substitute tenant offered. Also, in any such case, Landlord may make repairs, alterations and additions in or to the Premises and redecorate the same to the extent deemed by Landlord necessary or desirable, and in connection therewith Landlord may change the locks to the Premises, and Tenant shall upon written demand pay the cost thereof together with Landlord's expenses of reletting. Landlord may collect the rents from any such reletting and apply the same first to the payment of the expenses of reentry, redecoration, repair and alterations and the expenses of reletting and second to the payment of Rent herein provided to be paid by Tenant, and any excess or residue shall operate only as an offsetting credit against the amount of Rent due and owing or paid as a result of acceleration or as the same thereafter becomes due and payable hereunder, but the use of such offsetting credit to reduce the amount of Rent due Landlord, if any, shall not be deemed to give Tenant any right, title or interest in or to such excess or residue and any such excess or residue shall belong to Landlord solely; provided that in no event shall Tenant be entitled to a credit on its indebtedness to Landlord in excess of the aggregate sum (including Base Rent and Additional Rent) which would have been paid by Tenant for the period for which the credit to Tenant is being determined, had no Event of Default occurred. No such re-entry, repossession, repairs, alterations, additions or reletting shall be construed as an eviction or ouster of Tenant or as an election on Landlord's part to terminate this Lease, unless a written notice of such intention is given to Tenant, or shall operate to release Tenant in whole or in part from any of Tenant's obligations hereunder, and Landlord may, at any time and from time to time, sue and recover judgment for any deficiencies from time to time remaining after the application from time to time of the proceeds of any such reletting.

F. In the event of the termination of this Lease by Landlord as provided for by subparagraph (i) of Section 20B, Landlord shall be entitled to recover from Tenant all the fixed dollar amounts of Rent accrued and unpaid for the period up to and including such termination date, as well as all other additional sums payable by Tenant, or for which Tenant is liable or in respect of which Tenant has agreed to indemnify Landlord under any of the provisions of this Lease, which may be then owing and unpaid, and all costs and expenses, including without limitation court costs and reasonable attorney's fees incurred by Landlord in the enforcement of its rights and remedies hereunder and in addition, Landlord shall be entitled to recover as

damages for loss of the bargain and not as a penalty (i) the unamortized cost of leasehold improvements, additions, alterations, if any, paid for by Landlord pursuant to this Lease and any work letter attached hereto, (ii) the aggregate sum which at the time of such termination represents the excess, if any, of the present value on the aggregate rents at the same annual rate for the remainder of the Term as then in effect pursuant to the applicable provisions of Sections 2 and 3 of this Lease, over the then present value of the then aggregate fair rental value of the Premises for the balance of the Term, such present value to be computed in each case on the basis of three percent (3%) per annum discount from the respective dates upon which such rentals would have been payable hereunder had this Lease not been terminated, and (iii) any damage in addition thereto, including reasonable attorneys' fees and court costs, which Landlord shall have sustained by reason of the breach of any of the covenants of this lease other than for the payment of rent.



G. All property removed from the Premises by Landlord pursuant to any provisions of this Lease or by law may be handled, removed or stored by Landlord at the cost and expense of Tenant, and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. Tenant shall pay Landlord for all expenses incurred by Landlord in such removal and for reasonable storage charges for such property so long as the same shall be in Landlord's possession or under Landlord's control. All such property not removed from the Premises or retaken from storage by Tenant at the end of the Term, however terminated, shall, at Landlord's option, be conclusively deemed to have been conveyed by Tenant to Landlord as by bill of sale, without further payment or credit by Landlord to Tenant.

H. Tenant shall pay all of Landlord's costs, charges and expenses, including without limitation court costs and reasonable attorney's fees, incurred in enforcing Tenant's obligations under this Lease or incurred by Landlord in any litigation, negotiation or transaction in which Tenant causes Landlord, without Landlord's fault, to become involved or concerned.

I. The provisions of this Section 20 shall survive termination of this Lease.

21. **SURRENDER OF POSSESSION**. Upon the termination of this Lease and the Term hereby created, whether by lapse of time or at the option of Landlord as aforesaid, Tenant will at once surrender possession of the Premises to Landlord in good condition and repair, reasonable wear and tear excepted, and remove all effects therefrom, and if such possession is not immediately surrendered Landlord may forthwith re-enter the Premises and repossess itself thereof as of its former estate and remove all persons and effects therefrom, using such force as may be necessary, without being deemed guilty of any manner of trespass or forcible entry or detainer. Without limiting the generality of the foregoing, Tenant agrees to remove at the termination of the Term the items of property, title to which is to remain in Tenant, pursuant to Section 7 of this Lease. If Tenant shall fail or refuse to remove all such property from the Premises, Tenant shall be conclusively presumed to have abandoned the same, and title thereto shall thereupon pass to Landlord without any cost to Landlord either by set-off, credit, allowance or otherwise, and Landlord shall be entitled to be reimbursed by Tenant for any removal or other expenses incurred by Landlord as a result of such abandonment.

22. **HOLDING OVER**. If Tenant shall retain possession of the Premises or any part thereof after the termination of this Lease, whether by lapse of time or otherwise, Tenant shall pay to Landlord one hundred twenty-five percent (125%) of all applicable forms of Rental then applicable for each month or portion thereof for the first ninety (90) days of the holding-over period and thereafter, shall pay to Landlord two hundred percent (200%) of the amount of all forms of Rental then applicable for each month or portion thereof. The provisions of this Section 22 shall not operate as a waiver by Landlord of any right of re-entry hereinbefore provided.

23. **NON-WAIVER**. No waiver of any agreement or condition expressed in this Lease shall be implied by any neglect of Landlord to enforce any remedy on account of the violation of such agreement or condition if such violation be continued or repeated subsequently, and no express waiver shall effect any agreement or condition other than the one specified in



such waiver and only for the time and in the manner specifically stated. No receipt of monies by Landlord from Tenant after the termination in any way affects the Term, or of Tenant's right of possession hereunder, or after the giving of any notice, shall reinstate, continue or extend the Term or affect any notice given to Tenant prior to the receipt of such monies, it begin agreed that after the service of notice or the commencement of a suit or after final judgment for possession of the Premises Landlord may receive and collect any Rental due, and the payment of said Rental shall not waive or affect said notice, suit or judgment.

24. **TENANT'S WAIVER**. Tenant agrees that in any such action brought by Landlord not to object or contest the immediate execution of the Court's order of possession. To the extent permitted by law, Tenant waives any right to a jury trial with respect to matters arising under this Lease.

25. **LANDLORD'S RIGHT TO CURE**. Landlord may, but shall not be obligated to, cure any default by Tenant specifically including, but not by way of limitation, Tenant's failure to obtain insurance, make repairs, or satisfy lien claims, after complying with the notice provisions established in Section 20, and, whenever Landlord so elects, all costs and expenses paid by Landlord in curing such default, including, without limitation, reasonable attorneys' fees, shall be so much additional rent due on the next rent date after such payment together with interest (except in the case of said attorneys' fees) at the highest rate then payable by Tenant in the State of Illinois or, in the absence of such rate, at the rate of fifteen percent (15%) per annum, from the date of the advance to the date of repayment by Tenant to Landlord.

26. **REMEDIES CUMULATIVE**. No remedy herein or otherwise conferred upon or reserved to Landlord shall be considered to exclude or suspend any other remedy but the same shall be cumulative and shall be in addition to every other remedy given hereunder now or hereafter existing at law or in equity or by statute, and ever power and remedy given by this Lease to Landlord may be exercised from time to time and as often as occasion may arise or as may be deemed expedient. No delay or omission of Landlord to exercise any right or power arising from default shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein. Neither the right herein given to receive, collect, sue for or distrain for any rent or rents, monies or payments or to enforce the terms, provisions and conditions of this Lease, or to prevent the breach or non-observance thereof, or the exercise of any such right or of any other right or remedy hereunder or otherwise granted or arising, shall in any way affect or impair or toll the right or power of Landlord provided for in this Lease, or to repossess without terminating the Lease, because of any default in or breach of the covenants, provisions or conditions of this Lease.

27. **DEFAULT UNDER OTHER LEASES**. A default in any lease, other than this Lease, made by Tenant for any premises in the Building shall at the option of Landlord be deemed a default in this Lease, or both leases.

28. **BROKERAGE**. Tenant warrants that it has had no dealings with any broker or agent in connection with this Lease other than Landlord's broker, Colliers Bennett & Kahnweiller, Inc., or Tenant's broker, Montero Partners, Ltd., and covenants to pay, hold harmless and indemnify Landlord from and

against any and all cost (including reasonable



attorneys' fees), expenses or liability for any compensation, commissions and charges claimed by any other broker or other agent with respect to this Lease or the negotiation thereof.

29. **SUBORDINATION**.

A. This Lease and all rights of Tenant hereunder are subject and subordinate to the lien of any first mortgage or mortgages now or at any time hereafter in force against the Building, and all amendments, modifications and renewals thereof and extensions, consolidations or replacements thereof and to all advances made or hereafter to be made upon the security thereof. Tenant agrees to execute such further instruments subordinating this Lease to the lien or liens of any such mortgage or mortgages as Landlord from time to time may request. Tenant shall, in the event any proceedings are brought for the foreclosure of any mortgage or other financing documents made by Landlord covering the Premises, attorn to the Purchaser upon such foreclosure and recognize such Purchaser as the Landlord under this Lease, if Purchaser so requests.

B. Notwithstanding anything to the contrary contained herein, any first mortgagee may subordinate, in whole or in part, its first mortgage to this Lease by sending Tenant notice in writing subordinating all or any part of such first mortgage to this Lease, and Tenant agrees to execute and deliver to such first mortgagee such further instruments consenting to or confirming the subordination of all or any portion of its first mortgage to this lease and containing such other reasonable provisions which may be requested in writing by such first mortgagee within ten (10) days after Tenant's receipt of such written request.

C. Landlord will use its commercially best efforts to obtain a subordination non-disturbance agreement ("**SNDA**") on behalf of Tenant from its current lender and any future lender using such lender form of SNDA.

30. **POSSESSION**. In the event the Premises shall not be completed and ready for occupancy on the date fixed for the commencement of the Term or in the event Landlord is unable to deliver possession by tenant or occupant, this Lease shall nevertheless continue in full force and effect but rent (including Additional Rent) shall abate until the Premises are ready for occupancy or until the Landlord is able to deliver possession, as the case may be, and the Landlord shall have no other liability whatsoever on account thereof; provided, however, there shall be no abatement of rent if the Premises are not ready for occupancy because of delays resulting from Tenant's failure to complete the installation of special equipment, fixtures, or materials ordered by Tenant. The Premises shall not be deemed incomplete or not ready for occupancy if only insubstantial details of construction, decoration or mechanical adjustments remain to be done. The determination of Landlord's architect shall be final and conclusive on both Landlord and Tenant as to whether the Premises are not ready for occupancy. If Tenant shall take possession of any part of the Premises prior to the date fixed above as the first day of the Term (which Tenant may not do without Landlord's prior written consent, all of the covenants and conditions of this Lease shall be binding upon the parties hereto with respect to such part of the Premises as if the first day of the Term has been fixed as the date when Tenant entered such possession and provided, however, Tenant shall not pay to Landlord any Rent for



the period of such use and occupancy prior to the first day of the Term of this Lease. This Lease shall, in any event, terminate on the date set forth in Section 1 hereof.

31. **RELOCATION OF TENANT**. Intentionally deleted.

32. **ESTOPPEL CERTIFICATES**. Tenant shall at time of possession execute a Turnover Letter in substantially the form attached as Exhibit C attached hereto, and thereafter within ten (10) days of written request by Landlord execute, acknowledge and deliver to Landlord a written statement certifying (if true) that Tenant has accepted the Premises, that this Lease is unmodified and in full force and effect (or, if there have been modifications, that the same is in full force and effect as modified and stating the modifications), that Landlord is not in default hereunder, the date to which Base Rent, Additional Rent and other charges have been paid in advance, if any, and such other accurate certifications as may reasonably be required by Landlord or Landlord's mortgagee ("**Estoppel Certificate**"). It is intended that any such statement delivered pursuant to this Section 32 may be relied upon by any prospective purchaser of the Building and Premises, any mortgagee of the Building and Premises and their respective successors and assigns. Failure of Tenant to return the Estoppel Certificate within ten (10) days shall constitute a default under the Lease and in addition to all other remedies available to Landlord, Tenant shall pay Landlord Twenty Five and no/100 Dollars ($25.00) per day for each day Tenant fails to return the Estoppel Certificate after the tenth day.

33. **NOTICE AND CONSENTS**. All notices, demands, requests, consents or approvals which may be or are required to be given by either party to the other shall be in writing and shall be deemed given when sent by United States registered or certified Mail, postage prepaid, (a) if for Tenant, addressed to Tenant at the Building, or at such other place as Tenant may from time to time designate by notice to Landlord, or (b) if for Landlord c/o First American Management, Inc., 3436 Kennicott Avenue, Suite 100, Arlington Heights, Illinois, 60004, or at such other place as Landlord may from time to time designate by notice to Tenant.

34. **MODIFICATION OF LEASE**. All negotiations, considerations, representations and understandings between Landlord and Tenant are incorporated herein and this Lease may be modified or altered only by agreement in writing between Landlord and Tenant.

35. **SECURITY DEPOSIT**. To secure the faithful performance by Tenant of all of the covenants and conditions in this Lease set forth and contained on the part of Tenant to be fulfilled, kept, observed and performed including, but without limiting the generality of the foregoing, such covenants and conditions in this Lease which become applicable upon the termination of the same by re-entry or otherwise, Tenant shall deposit simultaneous with the execution of this Lease the sum of not less than Sixty-Two Thousand One Hundred Ninety-Seven and 13/100 Dollars ($62,197.13) and which such sum shall be finally determined after review of Tenant's financial statements by Landlord as Security Deposit upon the following terms and conditions:

A. Such deposit or any part thereof not previously applied, or from time to time, such one or more parts or portions thereof, may be applied to the curing of any default that may then exist, without prejudice to any other remedy or remedies which the Landlord may have on account thereof, and upon such application Tenant shall pay

Landlord on demand the amount so applied which shall be added to the Security Deposit so the same may be restored to its original amount;

B. Should the Building be conveyed by Landlord the deposit or any portion thereof not previously applied may be turned over to Landlord's grantee or a new agent, as the case may be and, if the same be turned over as aforesaid, Tenant hereby releases Landlord from any and all liability with respect to the deposit and/or its application or return and Tenant agrees to look to such grantee or agent, as the case may be, for such applications or returns;

C. Landlord or its agent or its successors and assigns shall not be obligated to hold said deposit as a separate fund, but on the contrary may commingle the same with its other funds;

D. If Tenant shall faithfully fulfill, keep, perform and observe all of the covenants and conditions in this Lease set forth and contained on the part of Tenant to be fulfilled, kept, performed and observed, such deposit shall be returned to Tenant without interest no later than thirty (30) days after the expiration of the Term of this Lease or any renewal or extension thereof, provided Tenant has vacated the Premises and surrendered possession thereof to the Landlord at the expiration of the Term or any extension or renewal thereof as provided herein; and

E. Landlord or its agent on behalf of itself and its successors, reserves the right, at its sole option, to return to Tenant said deposit, or what may then remain thereof, at any time prior to the date when Landlord or its agent or its successors and assigns are obligated hereunder to return the same, but said return shall not in any manner be deemed to be a waiver of any default of Tenant hereunder then existing not to limit or extinguish any liability of Tenant hereunder.

36. **ASSIGNMENT AND SUBLETTING**.

A. Except as set forth below, Tenant shall not, without the prior written consent of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned, in each instance, either prior or subsequent to the Commencement Date, (i) assign, transfer, mortgage, pledge, hypothecate or encumber or subject to or permit to exist upon or be subjected to any lien or charge, this Lease or any interest under it, (ii) allow to exist or occur any transfer of or lien upon this Lease or the Tenant's interest herein by operation of law, (iii) sublet the Premises or any part thereof, or (iv) permit the use or occupancy of the Premises or any part thereof for any purpose not provided for under Section 5 of this Lease or by anyone other than the Tenant and Tenant's employees, provided, however, Tenant shall have the right to transfer and assign this Lease without Landlord's consent to any parent, subsidiary or affiliated company of the Tenant, with Tenant remaining liable for the performance of the terms of this Lease. In no event shall this Lease be assigned or assignable by voluntary or involuntary bankruptcy proceedings or otherwise, and in no event shall this Lease or any rights or privileges hereunder be an asset of Tenant under any bankruptcy, insolvency or reorganization proceedings, except as provided by law.



B. Without thereby limiting the generality of the foregoing provisions of this Section 36, Tenant expressly covenants and agrees not to enter into any lease, sublease, license, concession or other agreement for use, occupancy or utilization of the Premises which provides for rental or other payment for such use, occupancy or utilization based in whole or in part on the net income or profits derived by any person from the property leased, used, occupied or utilized, and that any such purported lease, sublease, license, concession or other agreement shall be absolutely void and ineffective as a conveyance of any right or interest in the possession, use, occupancy or utilization of any part of the Premises. Notwithstanding the foregoing, Tenant may sublease or assign this Lease to one of its affiliates or subsidiaries without Landlord's prior consent.

C. Consent by Landlord to any assignment, subletting, use, occupancy, transfer or encumbrance shall not operate to relieve Tenant from any covenant or obligation hereunder except to the extent, if any, expressly provided for in such consent, or be deemed to be a consent to or relieve Tenant from obtaining Landlord's consent to any subsequent assignment, subletting, use, occupancy, transfer or encumbrance by Tenant or anyone claiming by, through or under Tenant. Tenant shall pay all of Landlord's reasonable costs, charges and expenses, including without limitation, reasonable attorney's fees, incurred in connection with any assignment, subletting, use, occupancy, transfer or encumbrance made or requested by Tenant.

D. Tenant shall, by notice in writing, advise Landlord of its intention from, on and after a stated date (which shall not be less than forty-five (45) days after the date of the giving of Tenant's notice to Landlord) to assign this Lease or sublet any part or all of the Premises for the balance or any part of the Term, and, in such event, Landlord shall have the right, to be exercised by giving written notice to Tenant within thirty (30) days after receipt of Tenant's notice, to terminate this Lease with respect to the space described in Tenant's notice as of the date stated in Tenant's notice for the commencement of the proposed assignment or sublease. Tenant's notice shall include the name and address of the proposed assignee or subtenant, a true and complete copy of the proposed assignment or sublease and sufficient information as Landlord reasonably deems necessary to permit Landlord to determine the financial responsibility, experience and character of the proposed assignee or subtenant. If Tenant's notice covers all of the Premises and if Landlord exercises its right to terminate this Lease as to such space, then the Term of this Lease shall expire and end on the date stated in Tenant's notice for the commencement of the proposed assignment or sublease as fully and completely as if that date had been the last day of the Term hereof. If, however, Tenant's notice covers less than all of the Premises, and if Landlord exercises its right to terminate this Lease with respect to such space described in Tenant's notice, then as of the date stated in the Base Rent and the Tenant's Pro Rata Share as defined herein shall be adjusted on the basis of the number of rentable square feet retained by Tenant and this Lease as so amended, shall continue thereafter in full force and effect.

E. If Landlord, upon receiving Tenant's said notice with respect to any such space, does not exercise its right to terminate as aforesaid, Landlord will not unreasonably withhold its consent to Tenant's assignment of this Lease or subletting the space covered by its notice. Landlord shall not be deemed to have unreasonably withheld



its consent to a proposed assignment of this Lease or to a proposed sublease of part or all of the Premises if its consent is withheld because: (i) Tenant is then in default hereunder, (ii) any notice of termination of this Lease or termination of Tenant's possession shall have been given under Section 20 hereof; (iii) either the portion of the Premises which Tenant proposes to sublease, or the remaining portion of the Premises, or the means of ingress or egress to either the portion of the Premises which Tenant proposes to sublease or the remaining portion of the Premises, or the proposed use of the Premises or any portion thereof by the proposed assignee or subtenant will violate any village, city, state or federal law, ordinance or regulation, including without limitation, any applicable building code or zoning ordinances; (iv) the proposed use of the Premises by the proposed assignee or subtenant does not

conform with the use set forth in Section 5 hereof or is not otherwise a reasonable use of the Premises; (v) in the reasonable judgment of Landlord the proposed assignee or subtenant is of a character or is engaged in a business which would be deleterious to the reputation of the Building or Landlord, or the proposed assignee or subtenant is not sufficiently financially responsible or experienced to perform its obligations under the proposed assignment or sublease; or (vi) the proposed assignee or subtenant is a government (or subdivision or agency thereof) or an occupant of the Building; provided, however, that the foregoing are merely examples of reasons for which Landlord may withhold its consent and shall not be deemed exclusive of any permitted reasons for reasonably withholding consent, whether similar or dissimilar to the foregoing examples. Tenant agrees that all advertising by Tenant or on Tenant's behalf with respect to the assignment of this Lease or subletting of any part of the Premises must be approved in writing by Landlord prior to publication.

F. If Tenant, having first obtained Landlord's consent to any assignment or sublease, or if Tenant, as debtor or debtor in possession, or a trustee in bankruptcy for Tenant pursuant to the Bankruptcy Code, 11 U.S.C. 101 et seq., as amended from time to time (the "**Bankruptcy Code**"), shall assign this Lease or sublet the Premises, or any part thereof, at a rental or for other consideration in excess of the Rent or prorata portion thereof due and payable by Tenant under this Lease, then Tenant shall pay to Landlord as additional rent any such excess rent or other consideration immediately upon receipt under any such assignment or, in the case of a sublease, (i) on the first date of each month during the term of any sublease, the excess of all rent and other consideration due from the subtenant for such month over the Rent then payable to Landlord pursuant to the provisions of this Lease for said month (or if only a portion of the Premises is being sublet, the excess of all rent and other consideration due from the subtenant for such month over the portion of the Rent then payable to Landlord pursuant to the provisions of this Lease for said month which is allocable on a rentable square footage basis to the space sublet), and (ii) immediately upon receipt thereof, any other consideration realized by Tenant from such subletting; it being agreed, however, that Landlord shall not be responsible for any deficiency if Tenant shall assign this lease or sublet the Premises or any part thereof at a rental less than Rent provided for herein.

G. If Tenant shall assign this Lease as permitted herein, the assignee shall expressly assume all of the obligations of Tenant hereunder in a written instrument reasonably satisfactory to Landlord and furnish to Landlord not later than fifteen (15) days prior to the effective date of the assignment. If Tenant shall sublease the Premises



as permitted herein, Tenant shall obtain and furnish to Landlord, not later than fifteen (15) days prior to the effective date of such sublease and in form satisfactory to Landlord, the written agreement of such subtenant to the effect that the subtenant will attorn to Landlord, at Landlord's option and written request, in the event this lease terminates before the expiration of the sublease.

37. **TENANT-CORPORATION**. As Tenant is a corporation, Tenant (a) represents and warrants that this Lease has been duly authorized, executed and delivered by and on behalf of Tenant and constitutes the valid and binding agreement of Tenant in accordance with the terms hereof and (b) if Landlord so requests, Tenant shall deliver to Landlord, concurrently with the delivery of this lease executed by Tenant, certified resolutions of the board of directors (and shareholders, if required) authorizing Tenant's execution and delivery of this lease and the performance of Tenant's obligations hereunder. If Tenant corporation's stock is not publicly traded, then at the time this lease is executed and from time to time thereafter, at Landlord's request, Tenant shall furnish Landlord with a list of Tenant's shareholders.

38. **MORTGAGEE PROTECTION**. Tenant agrees to give any first mortgagee, by registered or certified mail, a copy of any notice of claim of default served upon the Landlord by Tenant, provided that prior to such notice Tenant has been notified in writing of the address of such first mortgagee. Tenant further agrees that if Landlord shall have failed to cure such default within twenty (20) days after such notice to Landlord (or if such default cannot be cured or corrected within that time, then such additional time as may be necessary if Landlord has commenced within such twenty (20) days and is diligently pursuing the remedies or steps necessary to cure or correct such default), then the first mortgagee shall have an additional thirty (30) days within which to cure or correct such default (or if such default cannot be cured or corrected within that time, then such additional time as may be necessary if such first mortgagee has commenced within such thirty (30) days and is diligently pursuing the remedies or steps necessary to cure or correct such default, including the time necessary to obtain possession if necessary to cure or correct such default) before Tenant may exercise any right or remedy which it may have on account of any such default of Landlord.

39. **SATELLITE/ANTENNAE EQUIPMENT**.

A. Subject to the terms and conditions herein, Landlord agrees to permit Tenant, at Tenant sole cost and expense, to install, maintain and operate microwave transmission equipment or a satellite dish (the "**Equipment**") on the roof of the Building at a location designated by the Landlord (the "**Equipment Premises**") to be used in connection with Tenant's business and to provide access for communications and electrical wires and conduits to be installed at Tenant's sole cost and expense from the Premises to and from the Equipment, provided that:

(i) The dimensions, design, placement, material composition, installation, technical operating characteristics (including, without limitation, operating frequency, power consumption and mechanical stability) of the Equipment on the roof is subject to the prior approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed.



(ii) Appropriate measures are taken to maintain all roof warranties in full force and effect;

(iii) Tenant furnishes Landlord with evidence reasonably satisfactory to Landlord that the installation, use and operation of the Equipment does not violate any rules, regulations, ordinances or laws (including, without limitation, any zoning or federal aviation rules, regulations, laws or ordinances) of any governmental body or agency;

(iv) Tenant shall acquire, in a timely manner and in any event prior to any installation or modification to the Equipment, all required licenses, permits and approvals of any applicable governmental authority, at Tenant's sole cost and expense;

(v) The installation, use and operation of the Equipment does not harm the Building;

(vi) The Equipment does not cause any interference with the reception of television, radio or other signals at the Building;

(vii) The design, installation and operation of the Equipment shall be solely for the passive reception of transmissions in connection with Tenant's business in the Premises; and

B. Tenant agrees to defend and hold Landlord harmless from and against all liabilities, claims, judgments, costs, damages, liens and expenses arising out of or in connection with the installation, use and operation of the Equipment.

C. Tenant shall be responsible, at Tenant's sole expense, for the installation, maintenance, operation, repair, replacement, and removal of the Equipment in accordance herewith, including, without limitation, the cost of all utilities and supplies. Tenant shall be responsible, at Tenant's sole expense, for maintaining in good repair and condition the Equipment Premises. Tenant shall also be responsible for the costs of design and construction of any modification to the Project required from time to time to accommodate the Equipment, which modification shall be subject to Landlord's approval, which may be granted or withheld in Landlord's sole and arbitrary discretion. At Landlord's request, Tenant shall, at Tenant's expense, remove any Equipment no longer used or held for future use by Tenant and repair all damage caused by such removal. Tenant agrees that upon termination of this Lease, Tenant shall remove all of the Equipment and repair the Project (including, without limitation, the roof thereof) to as good a condition as of the Commencement Date, ordinary wear and tear excepted.

40. **STORAGE SPACE**. Tenant shall be entitled to lease storage units within the lower level of the Building to the extent available at a rental rate of $10.50 per square foot.

41. **SIGNAGE**. Tenant shall have the right to display its name on exterior facade of the Building subject to Landlord designating the location on the Property for one or more exterior Tenant identification sign(s). Tenant shall install and maintain its identification sign(s)



in such designated location in accordance with this Section 41. Tenant shall have no right to install or maintain Tenant identification signs in any other location in or on the Property and shall not display or erect any other signs, displays or other advertising materials that are visible from the exterior of the Building. The size, design, color and other physical aspects of permitted sign(s) shall be subject to:

A. Landlord's written approval prior to installation, which approval may be withheld in Landlord's sole discretion.

B. Any applicable governmental permits and approvals required by the Village of Arlington Heights.

The cost of the sign(s), including the installation, maintenance and removal thereof, and all permits fees shall be paid by Tenant. If Tenant fails to install or maintain its sign(s), or if Tenant fails to remove same upon termination of this Lease and repair any damage caused by such removal, including without limitation, repainting the Building (if required by Landlord, in Landlord's sole but reasonable judgment), Landlord may do so at Tenant's expense. Tenant shall reimburse Landlord for all costs incurred by Landlord, including without limitation, reasonable attorneys' fees, to effect such installation, maintenance or removal, which amount shall be deemed Additional Rent. Any sign rights granted to Tenant under this Lease are personal to Tenant and may not be assigned, transferred or otherwise conveyed to any assignee or subtenant of Tenant without Landlord's prior written consent, which consent Landlord may withhold in its sole and absolute discretion.

42. **RIGHT OF FIRST REFUSAL**. At any time during the term of this Lease, and on the terms and conditions hereinafter set forth, provided that this Lease is in full force and effect and Tenant is not in default under this Lease beyond applicable notice and cure periods, Tenant shall have a continuing right to negotiate for additional space within the Building ("**Expansion Space**") on the terms and conditions hereinafter set forth:

A. During the term of this Lease, prior to Landlord's executing a lease ("**Proposed Lease**") for any space within the Building, Landlord shall notify Tenant in writing of the rentable area of the Expansion Space proposed to be leased, the proposed rental rate, the proposed commencement date (the "**Expansion Space Commencement Date**") and the proposed terms and conditions of the Proposed Lease.

B. If Tenant desires to negotiate for the lease of the Expansion Space, Tenant must, by written notice to Landlord given within five (5) business days after Landlord's notice, commence negotiation for the lease of the Expansion Space.

C. If Landlord and Tenant do not enter into a lease agreement for all of the Expansion Space within fifteen (15) days of the date of Landlord's notice of a prospective tenant for the Expansion Space, then Tenant shall have no further rights to lease such Expansion Space under this Section 42. In the event such space again becomes available, Tenant's rights to negotiate for such space in the future shall renew.



43. **MISCELLANEOUS**.

A. No receipt of money by Landlord from Tenant after the termination or expiration of this Lease or after the service of any notice or after the commencement of any suit, or after final judgment for possession of the Premises shall reinstate, continue or extend any such notice, demand or suit.

B. The term "**Landlord**" as used in this Lease, so far as covenants or obligations on the part of the Landlord are concerned, shall be limited to mean and include only the owner or owners at the time in question of the fee of the Premises and Building, and, in case of any subsequent transfer or conveyances, the then grantor shall be automatically freed and relieved, from and after the date of such transfer or conveyance, of all liability as respects the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter be performed; provided that any funds in the hands of such Landlord or the then grantor at the time of such transfer, in which Tenant has an interest, shall be turned over to the grantee, and any amount then due and payable to Tenant by Landlord or the then grantor under any provisions of this Lease, shall be paid to Tenant.

C. All of the covenants of Tenant hereunder shall be deemed and construed to be "conditions" as well as "covenants" as though the words specifically expressing or importing covenants and conditions were used in each separate instance.

D. Provisions inserted herein or affixed hereto shall not be valid unless appearing in the duplicate original hereof held by Landlord. In the event of variation or discrepancy, Landlord's duplicate original shall control.

E. The Premises are stipulated for all purposes to contain the number of rentable square feet as set forth in this Lease. Unless otherwise expressly provided herein, any statement of square footage set forth in this Lease or that may have been used in calculating rental is an approximation, which Landlord and Tenant agree is reasonable; and the rental based thereon is not subject to revision whether or not the actual square footage is more or less.

F. Landlord and Tenant each represent and warrant to the other that this Lease has been duly authorized, executed and delivered by an on behalf of each party hereto and constitutes the valid and binding agreement of Landlord and Tenant in accordance with the terms hereof. Tenant warrants and represents to Landlord that Tenant is not, and shall not become, a person or entity with whom Landlord is restricted from doing business with under regulations of the Office of Foreign Asset control ("**OFAC**") of the Department of the Treasury (including, but not limited to, those named on OFAC's Specially Designated and Blocked Persons list) or under any statute, executive ordering (including, but not limited to, the September 24, 2001 Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism), or other governmental action and is not and shall not engage in any dealings or transaction to be otherwise associated with such persons or entities.



G. This Lease shall not be recorded, but the parties agree, at the request of either of them, to execute a Short Form Lease for recording, containing the name of the parties, the legal description and the Term of this Lease.

H. Time is of the essence of this Lease, and all provisions herein relating thereto shall be strictly construed.

I. Nothing contained herein shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal or agent or of partnership, or of joint venture by the parties hereto, it being understood and agreed that no provision contained in this Lease nor any act of the parties hereto shall be deemed to create any relationship other than the relationship of Landlord and Tenant.

J. The captions of this Lease are for convenience only and are not to be construed as part of this Lease and shall not be construed as defining or limited in any way the scope or intent of the provisions hereof.

K. If any term or provision of this Lease shall to any extent be held invalid or unenforceable, the remaining terms and provisions of this Lease shall not be affected thereby, but each term and provision of this Lease shall be valid and enforced to the fullest extent by law.

L. All of the covenants, agreements, conditions and undertakings contained in this Lease shall extend and inure to and be binding upon the heirs, executors, administrators, personal representatives, successors and assigns of the respective parties hereto, the same as if they were in every case specifically named, and, whenever in this Lease reference is made to either of the parties hereto, it shall be held to include and apply wherever applicable, to the heirs, executors, administrators, personal representatives, successors and assigns of such party. Nothing herein contained shall be construed to grant or confer upon any person or persons, firm, corporation or government authority, other than the parties hereto, their heirs, executors, administrators, successors and assigns, any right, claim or privilege by virtue of any covenant, agreement, condition or undertaking in this Lease contained.

M. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for this Lease. This instrument shall become effective as a Lease upon execution and delivery by both Landlord and Tenant.

N. No rights to light or air over any real estate, whether belonging to Landlord or any other party, are granted to Tenant by this Lease.

O. This Lease shall be governed by and construed in accordance with the laws of the State of Illinois.



**IN WITNESS WHEREOF**, Landlord and Tenant have executed and entered into this Lease this 12 day of January, 2007.

**TENANT**:

PAYLOCITY CORPORATION,
an Illinois corporation

By: /s/Dan Miller
Its CFO

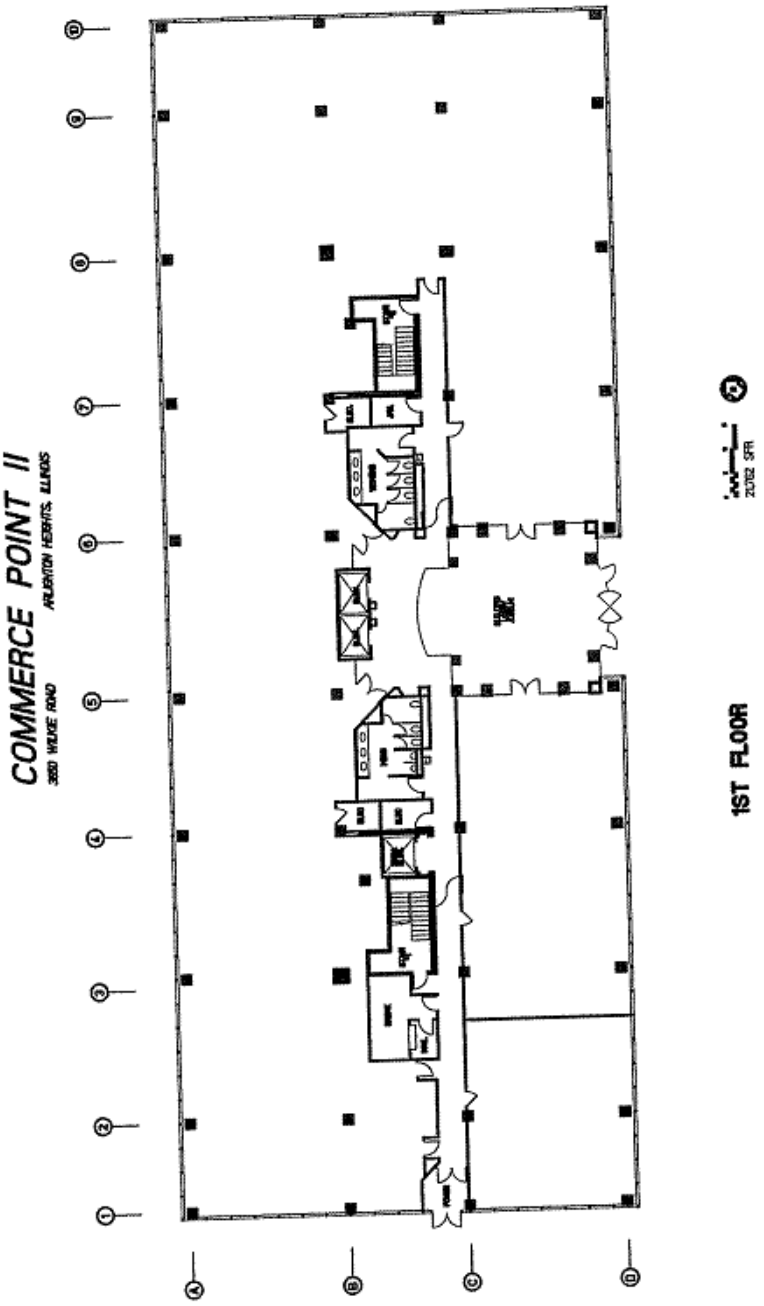
**LANDLORD**:

3850 WILKE L.L.C.,
an Illinois limited liability company

By: First American Management, Inc., managing agent

By: /s/C. Mark Jordan
C. Mark Jordan
Authorized Representative

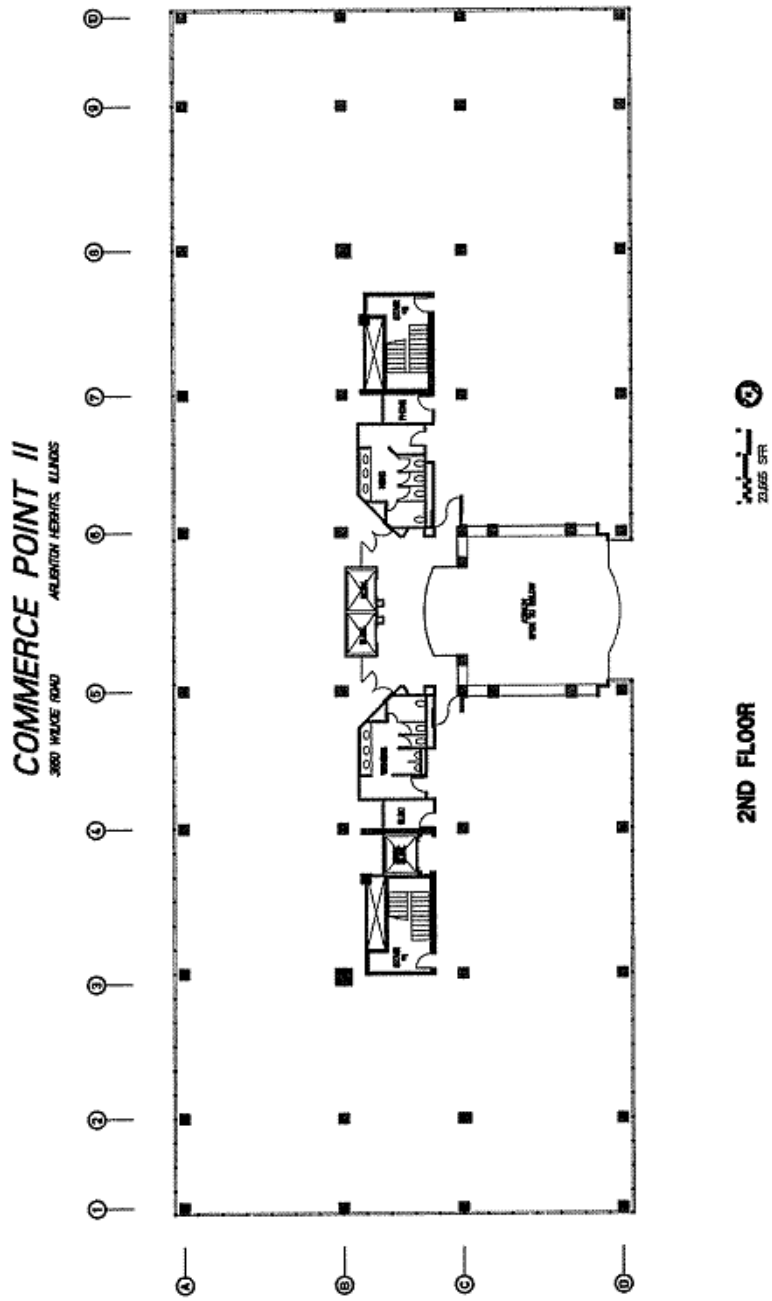
**EXHIBIT A**




1 of 2



**EXHIBIT A**




2 of 2



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**EXHIBIT B**

**LEGAL DESCRIPTION**

**PARCEL 1:**

LOT 28 IN 53 PARK OF COMMERCE, BEING A SUBDIVISION OF PART OF GOVERNMENT LOTS 1 AND 2 IN THE WEST ½ OF SECTION 6, TOWNSHIP 42 NORTH, RANGE 11, AND PART OF THE EAST ½ OF THE SOUTHEAST ¼ OF SECTION 1, TOWNSHIP 42 NORTH, RANGE 10 EAST OF THE THIRD PRINCIPAL MERIDIAN, ACCORDING TO THE PLAT THEREOF RECORDED JULY 11, 1985 AS DOCUMENT NUMBER 85097888, AS CORRECTED BY SURVEYOR'S CERTIFICATES OF CORRECTION RECORDED SEPTEMBER 4, 1985 AS DOCUMENT NUMBER 85173204 AND NOVEMBER 25, 1985 AS DOCUMENT NUMBER 85296795, IN COOK COUNTY, ILLINOIS, EXCEPT THAT PART OF LOT 28 CONVEYED TO THE STATE OF ILLINOIS FOR ROAD PURPOSES BY TRUSTEE'S DEED RECORDED AS DOCUMENT NUMBER 89106918, IN COOK COUNTY, ILLINOIS.

**PARCEL 2:**

EASEMENT FOR THE BENEFIT OF PARCEL 1 CREATED AS FOLLOWS:

(1) DECLARATION AND GRANT OF RECIPROCAL RIGHTS MADE BY AND AMONG AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO, AS TRUSTEE UNDER TRUST NUMBER 63918, 63919 AND 63920 RELATING TO PARKING, INGRESS AND EGRESS, MANAGEMENT OF COMMON AREAS, PROPORTIONATE SHARE AND GENERAL PROVISIONS AND THE TERMS AND CONDITIONS THEREIN CONTAINED RECORDED JULY 11, 1985 AS DOCUMENT NO. 85097889. FIRST AMENDMENT TO DECLARATION AND GRANT OF RECIPROCAL RIGHTS RECORDED JANUARY 12, 1987 AS DOCUMENT NUMBER 87020645.

AND

(2) DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS AND EASEMENTS RECORDED JULY 10, 1986 AS DOCUMENT NUMBER 86287842 MADE BY AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO, AS TRUSTEE UNDER TRUST 63918, 63919, 63920, 63921, 63922 AND 63466 REGARDING DEVELOPMENT STANDARDS ARCHITECTURAL CONTROL, OWNER'S ASSOCIATION, MAINTENANCE ASSESSMENTS, AND OTHER PROVISIONS.

Permanent Index No.: 02-01-401-014-0000

Common Address: 3850 N. Wilke Road, Arlington Heights, Illinois



**EXHIBIT C**
**(Turnover Letter)**

, 2007

**Re:** Premises:
Landlord Name:
Tenant Name:

To Whom It May Concern:

As an authorized representative of the above referenced Tenant, I/we have physically inspected the Premises referred to above and its improvements with , a representative of the property manager for the above referenced Building. I/we accept the Premises and such improvements as in compliance with all the requirements of our Lease. Further, I/we confirm and verify the following information:

Turnover Date:
Commencement Date:
Rent Start Date:
Expiration Date:
Electric Meter #
Gas Meter #

Tenant acknowledges that the Lease is in full force and effect and has not been amended, modified or superseded.

Tenant has paid to Landlord the sum of $ as first month's Rent and a Security Deposit in the amount of $ .

( ) (initial) Tenant acknowledges receipt of keys.

Very truly yours,

_____
Tenant

_____
Title

**Exhibit 10.8.1**

**AMENDMENT TO LEASE**

This Amendment to Lease made the 5th day of January, 2011 between **3850 WILKE L.L.C.**, an Illinois limited liability company ("**Landlord**"), and **PAYLOCITY CORPORATION**, an Illinois corporation ("**Tenant**").

Recitals:

WHEREAS, Tenant and 3850 Wilke L.L.C. entered into that certain Lease dated January 12, 2007 (the "**Lease**"), under which 3850 Wilke L.L.C. leased to Tenant that certain premises on the first and second floor of 3850 N. Wilke Road, Arlington Heights, Illinois (the "**Building**"), consisting of forty-five thousand four hundred twenty-seven (45,427) rentable square feet (the "**Premises**"); and

WHEREAS, Tenant desires to lease additional space on the fourth (4th) floor of the Building in phases as provided for herein consisting of a total of twenty-five thousand seventy-four (25,074) rentable square feet ("**RSF**") ("**Expansion Premises**"); and

WHEREAS, Tenant and Landlord desire to set the Lease Term of the Expansion Premises and extend the Lease Term of the Premises until April 30, 2019; and

WHEREAS, the parties desire to be bound by the terms and conditions hereinafter contained and the modification and amendment of the terms of the Lease.

NOW, THEREFORE, in consideration of the foregoing premises and mutual covenants and conditions hereinafter contained, the parties hereto agree as follows:

1. Preamble. The recitations herein above set forth in the Preamble are hereby adopted by this reference and incorporated herein, the same as though set forth in full context.

2. Definitions. The terms as used herein shall have the same meaning as in the Lease.

3. Expansion Premises. Landlord agrees to lease to Tenant, and Tenant agrees to lease from Landlord, an additional twenty-five thousand seventy-four (25,074) rentable square feet of space on the fourth (4th) floor of 3850 Wilke Road, Arlington Heights, Illinois, in Phases as set forth in the following schedule:

| | Expansion Premises | Occupancy Date |
|---|---|---|
| Phase I | 6,889 RSF | 3/1/11 |
| Phase II | 8,000 RSF | 3/1/12 |
| Phase III | 10,185 RSF | 3/1/13 |

Tenant may elect to lease Phase II and Phase III earlier than the occupancy dates set forth above upon notice to Landlord, not later than ninety (90) days prior to the scheduled occupancy date, to permit sufficient time for Landlord to complete Landlord Improvements to space.

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4. Term. The Term for the Premises is hereby extended until April 30, 2019. The Lease of the Expansion Premises shall commence as of the date Landlord delivers to Tenant occupancy of each respective Phase of the Expansion Premises and shall terminate on April 30, 2019. At all times, the Termination Date of the Premises and Expansion Premises shall be coterminus.

5. Rent:

A. Tenant shall continue paying the same Base Rent as provided for under Section 2 of the Lease, until June 30, 2011. Thereafter, Tenant shall pay Base Rent for the Premises in accordance with the following:

| | Annual Base Rent | Monthly Base Rent |
|---|---|---|
| 7/1/11 - 6/30/12 | $ 837,219.60 | $ 69,768.30 |
| 7/1/12 - 6/30/13 | $ 859,933.11 | $ 71,661.09 |
| 7/1/13 - 6/30/14 | $ 882,646.60 | $ 73,553.88 |
| 7/1/14 - 6/30/15 | $ 905,360.11 | $ 75,446.67 |
| 7/1/15 - 6/30/16 | $ 928,073.61 | $ 77,339.47 |
| 7/1/16 - 6/30/17 | $ 950,787.22 | $ 79,323.26 |
| 7/1/17 - 6/30/18 | $ 973,500.61 | $ 81,125.05 |
| 7/1/18 - 4/30/19 | $ 996,214.11 | $ 83,017.84 |

Anything to the contrary notwithstanding, Tenant shall not be required to pay Net Rent, as such term is defined, during the months of July 1, 2016 through and October 31, 2016 inclusive ("**Rent Abatement Period**"). For purposes herein "Net Rent" is Base Rent less any Taxes and Operating Expenses that are a component of Base Rent. During the Rent Abatement Period, Tenant shall pay Taxes and Operating Expenses without consideration of any Stops.

B. Phase I: Tenant shall pay Base Rent for Phase I Expansion Premises in accordance with the following:

| | Annual Base Rent | Monthly Base Rent |
|---|---|---|
| 3/1/11 - 2/29/12 | $ 126,964.27 | $ 10,580.35 |
| 3/1/12 - 2/28/13 | $ 130,408.77 | $ 10,867.40 |
| 3/1/13 - 2/28/14 | $ 133,853.27 | $ 11,154.44 |
| 3/1/14 - 2/28/15 | $ 137,297.77 | $ 11,441.46 |

| | | |
|---|---|---|
| 3/1/15 - 2/28/16 | $ 140,742.27 | $ 11,728.52 |
| 3/1/16 - 2/28/17 | $ 144,186.77 | $ 12,015.56 |
| 3/1/17 - 2/28/18 | $ 147,631.27 | $ 12,302.60 |
| 3/1/18 - 4/30/19 | $ 151,076.77 | $ 12,589.65 |



Anything to the contrary notwithstanding, Tenant shall not be required to pay Base Rent or Additional Rent for the months of March 1, 2011 through December 31, 2011 (ten months) inclusive.

C. Phase II. Tenant shall pay Base Rent for Phase II Expansion Premises in accordance with the following:

| | Annual Base Rent | Monthly Base Rent |
|---|---|---|
| 3/1/12 - 2/28/13 | $ 151,440.00 | $ 12,620.00 |
| 3/1/13 - 2/28/14 | $ 155,440.00 | $ 12,953.33 |
| 3/1/14 - 2/28/15 | $ 159,440.00 | $ 13,286.67 |
| 3/1/15 - 2/28/16 | $ 163,440.00 | $ 13,620.00 |
| 3/1/16 - 2/28/17 | $ 167,440.00 | $ 13,953.33 |
| 3/1/17 - 2/28/18 | $ 171,440.00 | $ 14,286.67 |
| 3/1/18 - 4/30/19 | $ 175,440.00 | $ 14,620.00 |

Anything to the contrary notwithstanding, Tenant shall not be required to pay Base Rent or Additional Rent for the first nine (9) months of the Term for Phase II Expansion Premises.

D. Phase III. Tenant shall pay Base Rent for Phase III Expansion Premises in accordance with the following:

| | Annual Base Rent | Monthly Base Rent |
|---|---|---|
| 3/1/13 - 2/28/14 | $ 197,894.55 | $ 16,491.21 |
| 3/1/14 - 2/28/15 | $ 202,987.05 | $ 16,915.59 |
| 3/1/15 - 2/28/16 | $ 208,079.55 | $ 17,339.96 |
| 3/1/16 - 2/28/17 | $ 213,172.05 | $ 17,764.34 |
| 3/1/17 - 2/28/18 | $ 218,264.55 | $ 18,188.71 |
| 3/1/18 - 4/30/19 | $ 223,357.05 | $ 18,613.09 |

Anything to the contrary notwithstanding, Tenant shall not be required to pay Base Rent or Additional Rent for the first eight (8) months of the Term for Phase III Expansion Premises.

E. In the event that Tenant elects to take occupancy of Phase II or Phase III earlier than provided for herein or elects to vary the amount of square footage it is leasing with respect to Phase II, then in such case the Base Rent shall be adjusted accordingly, calculated on the same per RSF basis as used herein.

6. Additional Rent.

A. Tenant shall continue paying Additional Rent for the Premises in accordance with Section 3 of the Lease until December 31, 2016. During the balance of



the Term, Section 3(ii) of the Lease is hereby modified by deleting such subsection in its entirety and substituting the following.

"(ii) Commencing January 1, 2017, anything to the contrary notwithstanding, Tenant shall only be required to pay Tenant's Pro Rata Share of Taxes to the extent such Taxes are in excess of the Taxes paid by Landlord in 2017 ("**New Tax Stop**")."

Further, Section 3B(iii) is hereby modified by deleting such subsection in its entirety and substituting the following:

"(iii) Commencing January 1, 2017, anything to the contrary notwithstanding, Tenant shall only be required to pay Tenant's Pro Rata Share of Operating Costs to the extent such Operating Costs are in excess of the Operating Costs paid by Landlord in 2017 ("**New Operating Costs Stop**")."

B. Tenant shall pay Additional Rent for the respective Phase of the Expansion Premises it is leasing in accordance with the terms of Section 3 of the Lease. Tenant's Pro Rata Share for each Phase shall be determined as the percentage of RSF occupied by Tenant in each Phase of the Expansion Premises compared with the RSF of the Building.

Anything to the contrary notwithstanding, Tenant shall not be required to pay Tenant's Pro Rata Share of Taxes or Operating Expenses for each respective Phase of Expansion Space until such Taxes and Operating Expenses exceed the Taxes and Operating Expenses paid by Landlord during the calendar years listed below. Landlord shall be required to pay all Taxes and Operating Expenses to the extent such Taxes and Operating Expenses do not exceed the respective Phase I, Phase II or Phase III Tax or Operating Expenses Stop.

| | | |
|---|---|---|
| Phase I | 2012 | Base Year for Tax and Operating Stop |
| Phase II | 2013 | Base Year for Tax and Operating Stop |
| Phase III | 2014 | Base Year for Tax and Operating Stop |

7. Landlord Improvement/Tenant Improvement Allowance. Landlord shall improve each Phase of the Expansion Premises at its cost and expense, subject to an allowable Tenant Improvement Allowance in an amount not to exceed $275,560 ($40 per RSF) for Phase I and an additional amount equal to $41.60 per RSF to construct the Improvement to Phase II Expansion Premises and an additional amount equal to $43.21 to construct the Improvement to Phase III Expansion Premises, pursuant to plans that are agreed upon between Landlord and Tenant, prior to Landlord commencing such improvements. The total Tenant Improvement Allowance to construct the Expansion Space shall not exceed $1,048,453.80. In the case of Phase I, Landlord will improve the Phase I Expansion Premises in accordance with the preliminary space plan prepared by Featherstone Consulting, Inc., dated June 30, 2010 and identified as Job 0443-AD, Concept 2 and the Workletter of the same date, each attached hereto as Group Exhibit A. Landlord will pay for one (1) initial preliminary space plan and one (1) revision to such plan for each Phase of Expansion Space.



It is understood that the costs to construct the Improvements may exceed Tenant Improvement Allowance ("**Cost Differential**"). The ratio that the Cost Differential bears to the estimate of the entire costs to construct the Improvements ("**Estimate of Costs**"), being the Cost Differential divided by the Estimate of Costs shall be deemed the "Tenant's Proportionate Share". The ratio that the Tenant Improvement Allowance bears to the Estimate of Costs being the Tenant Improvement Allowance divided by the Estimate of Costs, shall be "Landlord's Proportionate Share". In connection with each draw by the general contractor, Landlord shall fully fund an amount equal to Landlord's Proportionate Share multiplied by the aggregate amount of each such draw. In connection with each such draw request, Tenant shall fully pay an amount equal to Tenant's Proportionate Share multiplied by the amount of each such draw request during Landlord's completion of improvements.

If after full disbursement of the Tenant Improvement Allowance there exists any shortage in the amount of the cost of Tenant Improvements based on the actual costs of the construction of the Improvements, Tenant shall be responsible for paying such costs. In the event that the actual costs are less than the Estimate of Costs, Landlord, nevertheless, shall be required to fund, and shall fund, the entire amount of the Tenant Improvement Allowance.

To the extent Tenant fails to use all of the Tenant Improvement Allowance for the purposes intended, any unused funds may be applied to Rent next due.

8. Tenant Improvement Allowance for Premises. During the period between March 1, 2016 to August 31, 2016, Landlord agrees to pay Tenant a construction allowance not to exceed Two Hundred Seventy-Two Thousand Five Hundred Sixty-Two and 00/100 Dollars ($272,562.00) of Tenant's documented cost to improve the Premises as described in the Lease ("**Tenant Improvement Allowance**"). Said amount will be paid to Tenant within thirty (30) days after Tenant furnishes Landlord with a copy of the receipted bills for such work, releases or waivers of liens from all parties doing work in the Premises and an affidavit from Tenant stating that all bills have been paid and that there are no outstanding obligations owed with respect to the work done in the Premises. To the extent that Tenant does not use the full Tenant Improvement Allowance to improve the Premises, any unused amount shall be credited to Rent next due.

9. Right of First Refusal. Pursuant to Section 42 of the Lease, Tenant shall continue to have a continuing right to negotiate for any additional space within the Building that is or becomes available for lease.

10. Utilities. Tenant shall pay for all electric and gas used in connection with each Phase of Expansion Premises directly to the utility company, providing service through separate meters is provided by Landlord.

11. Option to Extend. Provided that this Lease is then in full force and effect and provided further that Tenant is not then in default under this Lease, Landlord hereby grants to Tenant an option to extend the term of this Lease for the Premises and Expansion Premises on the same terms, conditions and provisions as contained in the Lease, except as otherwise provided herein, for an additional five (5) year period which shall commence upon the day next



following the termination date of the Lease term and shall end on the day preceding the fifth ($5^{th}$) anniversary of the Lease term's expiration date (the "**Option Period**").

A. Tenant's option to extend shall be exercisable by written notice of Tenant's election to extend the Lease Term from Tenant to Landlord received no later than two hundred seventy (270) days prior to the expiration of the Term. If not so exercised, Tenant's option under this section shall thereupon expire.

B. The Base Rent payable during the Option Period with respect to the Leased Premises shall be equal to ninety-five percent (95%) of the Market Rental Rate (as hereinafter defined in this Section G hereof (for the five (5) year lease term commencing on or about the date of commencement of the Option Period).

C. Tenant may only exercise its extension option granted hereunder so long as the entire Leased Premises is then occupied by the original Tenant hereunder and Tenant has not assigned this Lease or sublet the Leased Premises.

D. Landlord shall within sixty (60) days of receiving notice of Tenant's election to extend and in response to Tenant's written request, advise Tenant in writing of Landlord's determination of the Market Rental Rate for term commencing on or about the date of the commencement of the Option Period.

E. Tenant shall advise Landlord within fifteen (15) days of notice of Market Rental Rate of its intention to accept such rental rate.

F. Within ten (10) days after Tenant's acceptance of Landlord's determination of the Market Rental Rates as set forth in Section D and E hereof, Landlord and Tenant shall enter into a written supplement to this Lease confirming the revisions to the rental provisions contained in this Lease as may be necessary to confirm the change in the Base Rent. In the event a written supplement is not executed within said ten (10) day period by Tenant, Tenant's right to exercise its option to extend shall thereupon expire.

G. For purposes of this section, the "Market Rental Rate" shall mean the then prevailing annual rental rate per square foot of rentable area, as determined in good faith by Landlord, for improved space comparable to the Premises in area and location. The components of the Market Rental Rate may include, among the other then prevailing components of rent: a fixed annual rent (such as Base Rent), periodic adjustments or additions to a fixed annual rent based on a share of the Building real estate taxes and other expenses (such as Additional Rent) in excess of a certain amount of increases

based on an inflation index (such as a CPI Adjustment), and any concessions for Rent abatement and build-out allowances available to new tenants who may lease space within the Building.

H. In the event Landlord and Tenant do not reach agreement concerning the Market Rate, then Landlord and Tenant shall each designate an independent, licensed real estate broker, within seven (7) days from the expiration of the thirty (30) day period after Landlord has notified Tenant of its Market Rate determination, who shall have not less than five (5) years' experience as a real estate broker specializing in commercial leasing



and who shall be familiar with the commercial real estate market in which the Premises is located. Said brokers shall each determine the Market Rate within fifteen (15) days. If the lower of the two determinations is not less than ninety-five percent (95%) of the higher of the two determinations, then the Market Rate shall be the average of the two determinations. If the lower of the two determinations is less than ninety-five percent (95%) of the higher of the two determinations, then the two brokers shall render separate written reports of their determinations and within fifteen (15) days thereafter the two brokers shall appoint a third broker with like qualifications. Such third broker shall be furnished the written reports of the first two brokers. Within fifteen (15) days after the appointment of the third (3rd) broker, the third broker shall appraise the Market Rate. The Market Rate, for purposes of this section, shall equal the average of the two closest determinations; provided, however, that (i) if any one determination is agreed upon by any two of the brokers, then the Market Rate shall be such determination, and (ii) if any one determination is equidistant from the other two determinations, then the Market Rate shall be such middle determination. Landlord and Tenant shall each bear the cost of its broker and shall share equally the cost of the third broker.

12. Right of First Refusal. Section 42 of the Lease grants Tenant the option to negotiate for additional space with the Building. During the balance of the Term of the Premises and during the Term of the Expansion Premises, the provisions of Section 42 of the Lease shall continue to be in full force and effect.

13. Terms of Lease Binding. All terms and provisions of the Lease are incorporated herein as if set forth in full content.

14. Complete Understanding. This Amendment constitutes the entire agreement between the parties with respect to the subject matter hereof; this Amendment supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the subject matter herein contained. No change or modification to the Lease or any addenda and/or amendment thereto shall be valid unless the same is in writing and signed by all of the parties hereto. No waiver of any provision of the Lease or any Amendment shall be valid unless in writing and signing by the person or party to be charged.



IN WITNESS WHEREOF, the parties have executed this Amendment to Lease as of the day and date first above written.

**LANDLORD:**

3850 WILKE L.L.C.,
an Illinois limited liability company

By: First American Properties L.L.C.,
managing agent

By: /s/C. Mark Jordan
C. Mark Jordan
Authorized Representative

**TENANT:**

PAYLOCITY CORPORATION,
an Illinois corporation

By: /s/Steve Beauchamp
Its CEO
Steve Beauchamp

**AMENDMENT TO LEASE**

This Amendment to Lease made the 6 day of May 2013 between **3800 WILKE L.L.C.,** an Illinois limited liability company ("Landlord") and **PAYLOCITY CORPORATION,** an Illinois corporation ("Tenant").

Recitals:

WHEREAS, Tenant and 3850 Wilke L.L.C. entered into that certain Lease dated January 12, 2007 (the "Lease"), under which 3850 Wilke L.L.C. leased the Tenant that certain premises on the first and second floor of 3850 N. Wilke Road, Arlington Heights, Illinois ("3850"), consisting of forty-five thousand four hundred twenty-seven (45,427) rentable square feet (the "Premises"); and

WHEREAS, on January 5, 2011, Tenant and 3850 entered into an Amendment to Lease in which Tenant leased an additional twenty-five thousand seventy-four (25,074) rentable square feet on the fourth floor at 3850 ("Expansion Premises"); and

WHEREAS, Tenant desires to lease additional space on the third and fourth floors at the building common known as 3800 N. Wilke Road, Arlington Heights, Illinois ("3800 Premises") and

WHEREAS, Landlord herein is a related party to the landlord of 3850 and both Tenant and Landlord desire to adopt as the terms of the Lease for the 3800 Premises all of the terms of Tenant's Lease of the Premises and Expansion Premises at 3850, except as herein provided; and

WHEREAS, the parties desire to be bound by the terms and conditions hereinafter contained and the modifications and amendments of the terms of the Lease.

NOW, THEREFORE, in consideration of the foregoing premises and mutual covenants and conditions herein contained, the parties hereto agree as follows:

1. Preamble. The recitations herein above set forth in the Preamble are hereby adopted by this reference and incorporated herein, the same is so set forth in full context.

2. Definitions. Terms as used herein shall have the same meaning as in the Lease, and any previous amendments thereto, except the term "Landlord" shall have the meaning herein ascribed.

3. 3800 Premises. Landlord agrees to lease to Tenant, and Tenant agrees to lease from Landlord forty-six thousand four hundred seventy-nine (46,479) rentable square feet ("RSF") of space on the third and fourth floors of 3800 Wilke Road, Arlington Heights, Illinois ("3800 Premises")in Phases as set forth in the following schedule:



| | | Rental Square Feet | Occupancy Date |
|---|---|---|---|
| Phase I | 3rd Floor | 23,286 | 8/1/13 |
| Phase II | 4th Floor | 23,193 | 4/1/14 |

Tenant may elect to lease Phase II earlier than the occupancy date set forth above on notice to Landlord, not later than one hundred twenty (120) days prior to the scheduled occupancy date, to permit sufficient time for Landlord to complete the improvements to the space.

4. Term. The Lease of 3800 Premises shall commence as of the dates Landlord delivers the Tenant occupancy of each of the respective phases and shall terminate on May 31, 2020 unless there is a delay in completion of Landlord Improvements, then in such case the Lease shall end on the last day of the month eighty two (82) months after the Commencement Date of Phase I. Notwithstanding anything to the contrary, Landlord grants permission to Tenant to enter each Phase of the 3800 Premises thirty (30) days prior to the anticipated Occupancy Date for purposes of wiring for telephone and computer and installation of furniture and fixtures. Such early access by Tenant shall not interfere with Landlord's completion of improvements to Premises.

5. Rent:

A. Phase I: Tenant shall pay Base Rent for Phase I (3rd Floor Premises) in accordance with the following schedule:

| | Annualized Base Rent | Monthly Base Rent |
|---|---|---|
| 8/1/13 — 7/31/14 | $ 459,898.50 | $ 38,324.87 |
| 8/1/14 — 7/31/15 | $ 469,212.90 | $ 39,101.07 |
| 8/1/15 — 7/31/16 | $ 478,527.30 | $ 39,877.27 |
| 8/1/16 — 7/31/17 | $ 487,841.70 | $ 40,653.47 |
| 8/1/17 — 7/31/18 | $ 497,156.10 | $ 41,429.67 |
| 8/1/18 — 7/31/19 | $ 506,470.50 | $ 42,205.87 |
| 8/1/19 — 5/31/20 | $ 515,784.90 | $ 42,982.07 |

Tenant shall not be required to pay Base Rent from the Occupancy Date to and including February 28, 2014.

B. Phase II: Tenant shall pay Base Rent for Phase II (4th Floor Premises") in accordance with the following:

| | Annualized Base Rent | Monthly Base Rent |
|---|---|---|
| 4/1/14 — 7/31/14 | $ 458,061.75 | $ 38,171.81 |
| 8/1/14 — 7/31/15 | $ 467,338.95 | $ 38,944.91 |
| 8/1/15 — 7/31/16 | $ 476,616.15 | $ 39,718.01 |
| 8/1/16 — 7/31/17 | $ 485,893.35 | $ 40,491.11 |
| 8/1/17 — 7/31/18 | $ 495,170.55 | $ 41,264.21 |
| 8/1/18 — 7/31/19 | $ 504,447.75 | $ 42,037.31 |
| 8/1/19 — 5/31/20 | $ 513,724.95 | $ 42,810.41 |

Tenant shall not be required to pay Base Rent, for the period from the Occupancy Date to and including September 30, 2014.

C. In the event that Tenant elects to take occupancy of Phase II earlier than provided for herein, then in such case the Base Rent shall be adjusted accordingly, and calculated on the same per RSF basis as used herein.

6. Additional Rent. Tenant shall pay additional rent for each Phase it is leasing in accordance with Section 3 of the Lease, provided however the Tax Stop for purposes of calculating Tenant's obligation hereunder is $502,465.00. Tenant shall not have to pay its Pro Rata Share of Taxes until Landlord pays real estate taxes for the 3800 Building in excess of $502,465.00. The Operating Expense Stop is $558,300.00. Tenant shall not have to pay its Pro Rata Share of the Operating Expenses until Landlord pays Operating Expenses for the 3800 Building in excess of $558,300.00. Landlord shall be required to pay all Taxes and Operating Expenses to the extent Taxes and Operating expenses do not exceed the respective Tax and Operating Expense Stop.

For all purposes hereunder Tenant's Pro Rata Share is as follows:

| | |
|---|---|
| Phase I — 3rd Floor | 25.62% |
| Phase ll — 4th Floor | 25.52% |

7. Landlord Improvement/Tenant Improvement Allowance. Landlord shall improve each Phase of the 3800 Premises at its cost and expense, subject to an allowable Tenant Improvement Allowance in accordance with the following schedule:

| | | | | |
|---|---|---|---|---|
| Phase I — 3rd Floor | $ | 25.00 RSF | $ | 582,150.00 |
| Phase ll — 4th Floor | $ | 25.00 RSF | $ | 579,825.00 |

Landlord will construct the improvements to the 3rd and 4th Floors pursuant to plans that are agreed upon between Landlord and Tenant, prior to Landlord



commencing such improvements. In the case of Phase I, Landlord will improve the Phase I Premises in accordance with the preliminary space plan prepared by Featherstone Consulting, Inc., dated April 16, 2013 and identified as Job 0426AS, Concept 5 and the Workletter of the same date, each attached hereto as Group Exhibit A.

Landlord agrees to replace blinds as needed during Phase I construction at its cost, which amount shall be in addition to Tenant Improvement Allowance provided to Tenant for construction.

It is understood that the costs to construct the Improvements may exceed Tenant Improvement Allowance ("Cost Differential"). The ratio that the Cost Differential bears to the estimate of the entire costs to construct the Improvements ("Estimate of Costs"), being the Cost Differential divided by the Estimate of Costs shall be deemed the "Tenant's Proportionate Share". The ratio that the Tenant Improvement Allowance bears to the Estimate of Costs being the Tenant Improvement Allowance divided by the Estimate of Costs, shall be "Landlord's Proportionate Share". In connection with each draw by the general contractor, Landlord shall fully fund an amount equal to Landlord's Proportionate Share multiplied by the aggregate amount of each such draw. In connection with each such draw request, Tenant shall fully pay an amount equal to Tenant's Proportionate Share multiplied by the amount of each such draw request during Landlord's completion of improvements.

If after full disbursement of the Tenant Improvement Allowance there exists any shortage in the amount of the cost of Tenant Improvements based on the actual costs of the construction of the Improvements, Tenant shall be responsible for paying such costs. In the event that the actual costs are less than the Estimate of Costs, Landlord, nevertheless, shall be required to fund, and shall fund, the entire amount of the Tenant Improvement Allowance.

8. Architectural Plans. Landlord agrees to pay an amount not to exceed fifty cents ($.50) per square for architectural plans needed to construct Phase I or Phase II. Any additional charges associated with such plans shall be paid by Tenant within thirty (30) days of Landlord's invoice.

9. Right of First Refusal. At any time during the term of this Lease, and on the terms and conditions hereinafter set forth, provided that this Lease is in full force and effect and Tenant is not in default under this Lease beyond applicable notice and cure periods, Tenant shall have a continuing right to negotiate for additional space on the second floor of 3800 N. Wilke Road, Arlington Heights ("Expansion Space") on the terms and conditions hereinafter set forth:

A. During the term of this Lease, prior to Landlord's executing a lease ("Proposed Lease") for any of the Expansion Space, Landlord shall notify Tenant in writing of the rentable area of the Expansion Space proposed to be leased, the proposed rental rate, the proposed commencement date (the "Expansion Space



Commencement Date") and the proposed terms and conditions of the Proposed Lease.

B. If Tenant desires to negotiate for the lease of the Expansion Space, Tenant must, by written notice to Landlord given within five (5) business days after Landlord's notice, commence negotiation for the lease of the Expansion Space.

C. If Landlord and Tenant do not enter into a lease agreement for all of the Expansion Space within fifteen (15) days of the date of Landlord's notice of a prospective tenant for the Expansion Space, then Tenant shall have no further rights to lease such Expansion Space under this Section 42. In the event such space again becomes available, Tenant's rights to negotiate for such space in the future shall renew.

10. Option to Extend. Provided that this Lease is then in full force and effect and provided further that Tenant is not then in default under this Lease, Landlord hereby grants to Tenant an option to extend the term of this Lease for the 3800 Premises on the same terms, conditions and provisions as contained in the Lease or this Amendment, except as otherwise provided herein, for an additional five (5) year period which shall commence upon the day next following the termination date of the 3800 Premises Lease term and shall end on the day preceding the fifth (5th) anniversary of the 3800 Premises Lease term's expiration date (the "Option Period").

A. Tenant's option to extend shall be exercisable by written notice of Tenant's election to extend the Lease Term from Tenant to Landlord received no later than three hundred sixty (360) days prior to the expiration of the Term. If not so exercised, Tenant's option under this section shall thereupon expire.

B. The Base Rent payable during the Option Period with respect to the Leased Premises shall be equal to the Market Rental Rate (as hereinafter defined in this Section G hereof (for the five (5) year lease term commencing on or about the date of commencement of the Option Period).

C. Tenant may only exercise its extension option granted hereunder so long as the entire 3800 Premises is then occupied by the original Tenant hereunder and Tenant has not assigned this Lease or sublet the Leased Premises.

D. Landlord shall within thirty (30) days of receiving notice of Tenant's election to extend and in response to Tenant's written request, advise Tenant in writing of Landlord's determination of the Market Rental Rate for term commencing on or about the date of the commencement of the Option Period.

E. Tenant shall advise Landlord within fifteen (15) days of notice of Market Rental Rate of its intention to accept such rental rate.

F. Within ten (10) days after Tenant's acceptance of Landlord's determination of the Market Rental Rates as set forth in Section D and E hereof,



Landlord and Tenant shall enter into a written supplement to this Lease confirming the revisions to the rental provisions contained in this Lease as may be necessary to confirm the change in the Base Rent. In the event a written supplement is not executed within said ten (10) day period by Tenant, Tenant's right to exercise its option to extend shall thereupon expire.

G. For purposes of this section, the "Market Rental Rate" shall mean the then prevailing annual rental rate per square foot of rentable area, as determined in good faith by Landlord, for improved space comparable to the Premises in area and location. The components of the Market Rental Rate may include, among the other then prevailing components of rent: a fixed annual rent (such as Base Rent), periodic adjustments or additions to a fixed annual rent based on a share of the Building real estate taxes and other expenses (such as Additional Rent) in excess of a certain amount of increases based on an inflation index (such as a CPI Adjustment), and any concessions for Rent abatement and build-out allowances available to new tenants who may lease space within the Building.

H. In the event Landlord and Tenant do not reach agreement concerning the Market Rate, then Landlord and Tenant shall each designate an independent, licensed real estate broker, within seven (7) days from the expiration of the thirty (30) day period after Landlord has notified Tenant of its Market Rate determination, who shall have not less than five (5) years' experience as a real estate broker specializing in commercial leasing and who shall be familiar with the commercial real estate market in which the Premises is located. Said brokers shall each determine the Market Rate within fifteen (15) days. If the lower of the two determinations is not less than ninety-five percent (95%) of the higher of the two determinations, then the Market Rate shall be the average of the two determinations. If the lower of the two determinations is less than ninety-five percent (95%) of the higher of the two determinations, then the two brokers shall render separate written reports of their determinations and within fifteen (15) days thereafter the two brokers shall appoint a third broker with like qualifications. Such third broker shall be furnished the written reports of the first two brokers. Within fifteen (15) days after the appointment of the third (3rd) broker, the third broker shall appraise the Market Rate. The Market Rate, for purposes of this section, shall equal the average of the two closest determinations; provided, however, that (i) if any one determination is agreed upon by any two of the brokers, then the Market Rate shall be such determination, and (ii) if any one determination is equidistant from the other two determinations, then the Market Rate shall be such middle determination. Landlord and Tenant shall each bear the cost of its broker and shall share equally the cost of the third broker.

11. Terms of Lease Binding. All terms and provisions of the Lease are incorporated herein as if set forth in full content.

12. Complete Understanding. This Amendment constitutes the entire agreement between the parties with respect to the subject matter hereof; this



unless the same is in writing and signed by all of the **parties hereto. No waiver of** any provision of the Lease or any Amendment shall be valid **unless in writing** and signing by the person or party to be charged.

IN WITNESS WHEREOF, the parties have executed **this Amendment to Lease** as of the day and date first above written.

**LANDLORD:**

3800 WILKE L.L.C.,
an Illinois limited liability company

By: First American Properties L.L.C.,

managing agent

By: /s/C. Mark Jordan
C. Mark Jordan
Authorized Representative

**TENANT:**

PAYLOCITY CORPORATION, an Illinois corporation

By: /s/Peter McGrail
Its: CFO



Featherstone Consulting, Inc.
Architects & Planners,
*32 Fawn Ridge Drive*
*Oakwood Hills, Illinois 60013*
*Phone: (847) 462-8120*
*Fax: (847) 462-8065*

April 16, 2013

First American Properties
1731 N. Marcey St.
Suite 520
Chicago, Illinois 60614

Attn: Kathy Brush

RE: Commerce Point I
Paylocity
3rd Floor
Job # 0426-AS Concept #5

Dear Ms. Brush:

Attached you will find the PDF file of the Preliminary Space Plan for the above prospective tenant. We have attempted to provide for all the basic elements requested by the tenant. You may wish to review the plan and advise us if it is acceptable or if anything has been overlooked.

During the preparation of this preliminary plan, we noted that the following items should be reviewed with the General Contractor and Owner:

1. On the plan, all new tenant interior partitions are indicated with hollow lines and all the existing partitions are indicated with solid lines. New corridor partitions and partitions around the Training Rooms are indicated with cross hatching and shall extend to the deck above. Partitions between Training Rooms and Training Rooms and workstations to have sound board added to each side of the wall behind the gypsum board. Partitions to be removed are indicated as dashed on the plan. Patch all existing walls to remain as needed to look as new.

2. Provide new vinyl tile floors in the Break Room, Supply Rooms, IDF Closets, Electric Rooms and Data Room. Install new building standard carpeting in the balance of the space. Carpet color and tile color to be selected by the tenant to match the tenant's existing finishes on the fourth floor of the 3850 building.

3. Provide new egg shell wall paint on all walls thru-out the tenant space. Allow for three paint colors in the space. Provide for smooth finish at all perimeter office walls. Provide new 4" vinyl base at all walls. Install coved base at tile areas and straight base at carpeting. Paint color and base color to match the tenant's existing finishes.

4. Provide recessed indirect fluorescent fixtures and dimmable fluorescent down lights and dimmers in each of the Training Rooms. Provide building standard parabolic 2'x2' & 2'x4' fluorescent fixtures with T8 lamps and electronic ballasts thru-out the balance of the space. Provide switching in each room and space with occupancy detectors or split switching to meet the energy conservation code.

5. Verify the existing ceiling grid and rework as needed for the new layout. All tiles to be

replaced with new building standard regressed tiles.

6. New phone and electrical shall be building standard as indicated on the plan. All outlets indicated are new proposed locations. Data and phone outlet boxes and 3/4" conduit (unless noted otherwise) into the ceiling are to be provided as part of the construction with all cabling, outlets and cover plates provided and installed by the tenant. All cabling thru the ceiling plenum shall be plenum approved type. Verify existing electric service and rework as needed for this space. Provide dedicated electric outlets for the printers, copiers, microwave ovens, vending machines, water heater, and outlet adjacent to desk in each office. Provide three 208 volt 20 amp dedicated outlets dropped from the ceiling in the IDF rooms as indicated. Verify electrical requirements for the Data Room located in the lower level. Provide connections to tenant wired workstations with one circuit to every two stations and data conduits sized for 2 cables to each station in each group. Final connections of the stations to the outlets to be provided by the furniture installer. Provide flush floor outlets in each of the Conference Rooms with power, phone and data connection with 1 1/4" conduit for low voltage. Verify electrical connections in the Training Rooms with the furniture system. Provide boxes and conduits for card access at all doors tagged "C" on the plan. Relocate existing electric panels as needed for the new layout. Provide locks on all electric panels which are in open unlocked spaces. Existing horns and battery lights are indicated for reference only and will need to be adjusted and added to as needed for the new layout. Verify additional electrical requirements with the tenant.

7. All interior doors to be building standard doors and aluminum frames. The existing glass entry doors and side lights are to remain. All doors with 90 degree swings are new doors. Doors with 45 degree swings are existing to remain. The existing doors ro be removed are indicated as dashed. Provide electric strikes at all doors tagged “C” on the plan and locks at all office and conference room doors.

8. Furniture indicated on the plan shall be provided by the tenant and is indicated here for scale and layout. Actual furniture may vary from that indicated. Workstations to be provided, installed and wired by the tenant.

9. All existing blinds to be repaired as required for proper operation.

10. Re-balance the entire HVAC system for proper air flow to each area.

11. Provide new base and wall cabinets with plastic laminate counter and ss sinks in the Break Room as indicated. Provide lowered section of counter with recessed front panel at the sink per IAC requirements. Include under counter water heater with drip pan and drain. Provide new plumbing as required to nearest riser locations. Allow space for tenant provided refrigerator and vending equipment. Provide dishwasher with all required connections. Laminate counter top color to be selected by the tenant from standard colors. Include water lines with shut-offs at each refrigerator, coffee station and vending area as indicated. Remove existing plumbing at removed sink locations back to risers as required by code.

12. Provide hat shelf and hangrod per IAC requirements in the coat closet.

13. Provide recessed motorized projection screens in Training Room 1 and pull down screens in the other Training Rooms and Conference Rooms. Include supports from structure

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above and all wiring for a complete installation.

14. Provide ceiling outlets in the Training Rooms and Conference Rooms for tenant installed video projectors. All data wiring to be routed back to the IDF Rooms.

Please let me know of any additional services or information which we can provide for you on this project. We have issued copies of the plan by e-mail to Mark Jordan, Ron Rutkowski, Kimberly Sullivan and Peter McGrail for review.

Very truly yours,
Featherstone Consulting, Inc.

by: /s/Terry L. Frisch
Terry L. Frisch, President

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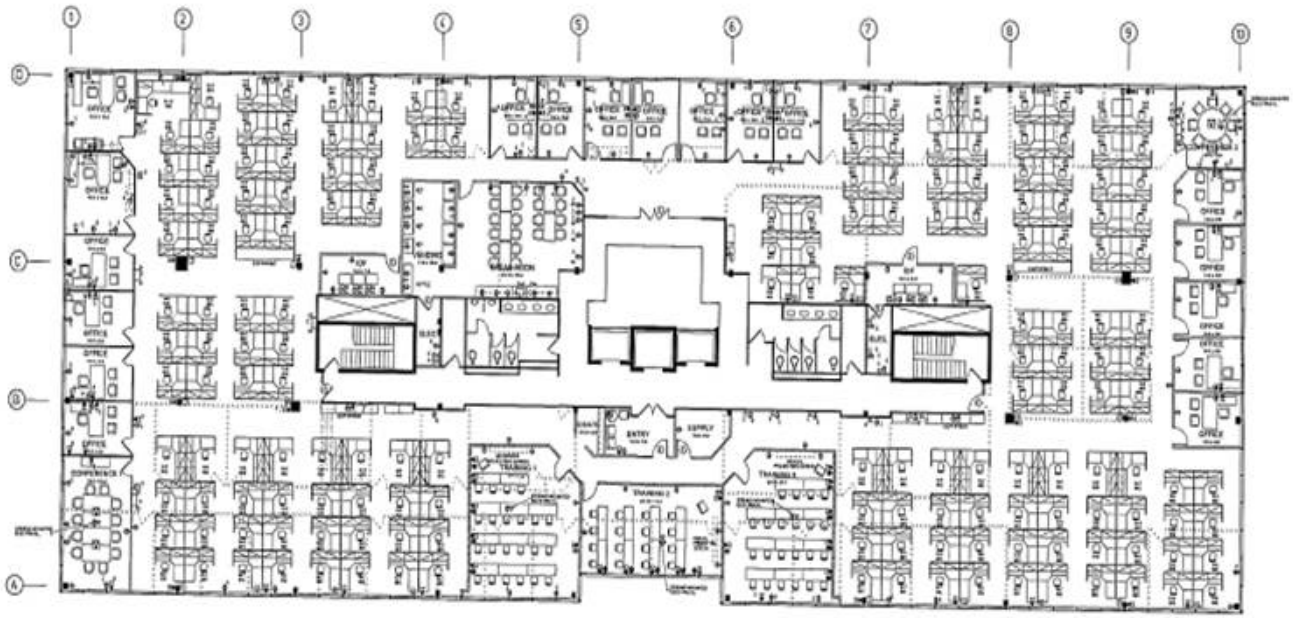

## PAYLOCITY

THIRD FLOOR — 23,286 SF RENTABLE — CONCEPT #5 REV

JOB #0426-AS — 4-17-13

## COMMERCE POINT I

3800 N. WILKE ROAD — ARLINGTON HEIGHTS, ILLINOIS

| | |
|---|---|
| WORKSTATIONS | 172 |
| OFFICES | 18 |
| CONFERENCE ROOMS | 2 |
| TRAINING ROOMS | 3 |
| BREAK ROOMS | 1 |

SCALE: 1/8" = 1'-0"

Featherstone Consulting, Inc.

**Exhibit 21.1**

List of Subsidiaries

- Paylocity Corporation, an Illinois corporation

**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors
Paylocity Holding Corporation:

We consent to the use of our report dated December 5, 2013, with respect to the consolidated balance sheets of Paylocity Holding Corporation as of June 30, 2011, 2012 and 2013, and the related consolidated statements of operations, changes in redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended June 30, 2013, included herein, and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KPMG LLP

Chicago, Illinois
January 30, 2014