Paylocity Holding Corp
Form 10-Q
May 03, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2019

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 001-36348

PAYLOCITY HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	46-4066644
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1400 American Lane

Schaumburg, Illinois	60173
(Address of principal executive offices)	(Zip Code)

(847) 463-3200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	PCTY	The NASDAQ Global Select Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company
	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 52,973,817 shares of Common Stock, $0.001 par value per share, as of April 26, 2019.

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Paylocity Holding Corporation

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For the Quarterly Period Ended March 31, 2019

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

PAYLOCITY HOLDING CORPORATION

Unaudited Consolidated Balance Sheets

(in thousands, except per share data)

	June 30, 2018	March 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 137,193	$ 90,856
Corporate investments	732	48,159
Accounts receivable, net	3,453	5,137
Deferred contract costs	—	19,765
Prepaid expenses and other	11,248	21,922
Total current assets before funds held for clients	152,626	185,839
Funds held for clients	1,225,614	1,722,309
Total current assets	1,378,240	1,908,148
Capitalized internal-use software, net	21,094	24,584
Property and equipment, net	62,029	64,893
Intangible assets, net	13,002	11,314
Goodwill	9,590	9,590
Long-term deferred contract costs	—	73,701
Long-term prepaid expenses and other	1,504	2,766
Deferred income tax assets, net	22,140	—
Total assets	$ 1,507,599	$ 2,094,996
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,990	$ 5,344
Accrued expenses	42,241	48,396
Total current liabilities before client fund obligations	45,231	53,740
Client fund obligations	1,225,614	1,722,309

Total current liabilities	1,270,845	1,776,049
Deferred rent	22,812	29,907
Other long-term liabilities	1,118	1,925
Deferred income tax liabilities, net	—	890
Total liabilities	$ 1,294,775	$ 1,808,771
Stockholders’ equity:		
Preferred stock, $0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2018 and March 31, 2019	$ —	$ —
Common stock, $0.001 par value, 155,000 shares authorized at June 30, 2018 and March 31, 2019; 52,758 shares issued and outstanding at June 30, 2018 and 52,964 shares issued and outstanding at March 31, 2019	53	53
Additional paid-in capital	219,588	196,574
Retained earnings (accumulated deficit)	(6,678)	89,576
Accumulated other comprehensive income (loss)	(139)	22
Total stockholders’ equity	$ 212,824	$ 286,225
Total liabilities and stockholders’ equity	$ 1,507,599	$ 2,094,996

See accompanying notes to unaudited consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Unaudited Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share data)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2018	Nine Months Ended March 31, 2019
Revenues:				
Recurring fees	$ 105,857	$ 129,976	$ 264,443	$ 326,012
Interest income on funds held for clients	2,719	6,197	6,119	14,164
Total recurring revenues	108,576	136,173	270,562	340,176
Implementation services and other	4,831	3,379	10,349	7,084
Total revenues	113,407	139,552	280,911	347,260
Cost of revenues:				
Recurring revenues	26,982	32,365	76,711	92,802
Implementation services and other	11,670	7,380	33,740	20,955
Total cost of revenues	38,652	39,745	110,451	113,757
Gross profit	74,755	99,807	170,460	233,503
Operating expenses:				
Sales and marketing	26,004	27,699	68,782	80,687
Research and development	9,058	12,688	27,227	36,886
General and administrative	19,228	23,208	53,338	68,915
Total operating expenses	54,290	63,595	149,347	186,488
Operating income	20,465	36,212	21,113	47,015
Other income	215	540	465	1,155
Income before income taxes	20,680	36,752	21,578	48,170
Income tax expense (benefit)	(18,497)	8,726	(18,573)	4,588
Net income	$ 39,177	$ 28,026	$ 40,151	$ 43,582
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on securities, net of tax	(61)	161	(171)	161
Total other comprehensive income (loss), net of tax	(61)	161	(171)	161
Comprehensive income	$ 39,116	$ 28,187	$ 39,980	$ 43,743
Net income per share:				
Basic	$ 0.74	$ 0.53	$ 0.77	$ 0.82
Diluted	$ 0.71	$ 0.51	$ 0.73	$ 0.79

Weighted-average shares used in computing net income per share:				
Basic	52,615	52,934	52,334	52,880
Diluted	55,030	55,465	54,717	55,280

See accompanying notes to unaudited consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Unaudited Consolidated Statement of Changes in Stockholders' Equity

(in thousands)

	Three Months Ended March 31, 2018					
	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit)	Loss	Equity
Balances at December 31, 2017	52,590	$ 53	$ 202,512	$ (44,302)	$ (110)	$ 158,153
Stock-based compensation	—	—	8,017	—	—	8,017
Stock options exercised	103	—	1,422	—	—	1,422
Issuance of common stock upon vesting of restricted stock units	11	—	—	—	—	—
Net settlement for taxes and/or exercise price related to equity awards	(55)	—	(2,160)	—	—	(2,160)
Unrealized losses on securities, net of tax	—	—	—	—	(61)	(61)
Net income	—	—	—	39,177	—	39,177
Balances at March 31, 2018	52,649	$ 53	$ 209,791	$ (5,125)	$ (171)	$ 204,548

	Nine Months Ended March 31, 2018					
	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit)	Loss	Equity
Balances at June 30, 2017	51,738	$ 52	$ 192,837	$ (45,276)	$ —	$ 147,613
Stock-based compensation	—	—	23,345	—	—	23,345
Stock options exercised	772	1	7,161	—	—	7,162
Issuance of common stock upon vesting of restricted stock units	425	—	—	—	—	—
Issuance of common stock under employee stock	53	—	2,045	—	—	2,045

purchase plan						
Net settlement for taxes and/or exercise price related to equity awards	(339)	—	(15,597)	—	—	(15,597)
Unrealized losses on securities, net of tax	—	—	—	—	(171)	(171)
Net income	—	—	—	40,151	—	40,151
Balances at March 31, 2018	52,649	$ 53	$ 209,791	$ (5,125)	$ (171)	$ 204,548

	Three Months Ended March 31, 2019					
	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit)	Loss	Equity
Balances at December 31, 2018	52,887	$ 53	$ 189,473	$ 61,550	$ (139)	$ 250,937
Stock-based compensation	—	—	9,972	—	—	9,972
Stock options exercised	117	—	1,483	—	—	1,483
Issuance of common stock upon vesting of restricted stock units	19	—	—	—	—	—
Net settlement for taxes and/or exercise price related to equity awards	(59)	—	(4,354)	—	—	(4,354)
Unrealized gains on securities, net of tax	—	—	—	—	161	161
Net income	—	—	—	28,026	—	28,026
Balances at March 31, 2019	52,964	$ 53	$ 196,574	$ 89,576	$ 22	$ 286,225

	Nine Months Ended March 31, 2019					
	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit)	Loss	Equity
Balances at June 30, 2018	52,758	$ 53	$ 219,588	$ (6,678)	$ (139)	$ 212,824
Cumulative effect of change in accounting policy (adoption of Topic 606)	—	—	—	52,672	—	52,672
Stock-based compensation	—	—	30,817	—	—	30,817
Stock options exercised	329	—	4,140	—	—	4,140
Issuance of common stock upon vesting of	623	—	—	—	—	—

restricted stock units						
Issuance of common stock under employee stock purchase plan	58	—	2,824	—	—	2,824
Net settlement for taxes and/or exercise price related to equity awards	(362)	—	(25,804)	—	—	(25,804)
Repurchases of common shares	(442)	—	(34,991)	—	—	(34,991)
Unrealized gains on securities, net of tax	—	—	—	—	161	161
Net income	—	—	—	43,582	—	43,582
Balances at March 31, 2019	52,964	$ 53	$ 196,574	$ 89,576	$ 22	$ 286,225

See accompanying notes to the unaudited consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Unaudited Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended March 31,	
	2018 (1)	2019
Cash flows from operating activities:		
Net income	$ 40,151	$ 43,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	21,891	28,837
Depreciation and amortization expense	20,640	25,213
Deferred income tax expense (benefit)	(18,603)	4,584
Provision for doubtful accounts	149	220
Net accretion of discounts and amortization of premiums on available-for-sale securities	(234)	(1,607)
Net realized losses on sales of available-for-sale securities	2	—
Loss on disposal of equipment	160	399
Changes in operating assets and liabilities:		
Accounts receivable	(1,278)	(1,904)
Deferred contract costs	—	(25,359)
Prepaid expenses and other	(1,678)	(1,485)
Accounts payable	429	596
Accrued expenses	1,762	5,299
Tenant improvement allowance	5,952	784
Net cash provided by operating activities	69,343	79,159
Cash flows from investing activities:		
Purchases of available-for-sale securities and other	(126,065)	(210,374)
Proceeds from sales and maturities of available-for-sale securities	51,292	161,306
Capitalized internal-use software costs	(11,442)	(14,706)
Purchases of property and equipment	(9,374)	(9,621)
Lease allowances used for tenant improvements	(7,086)	(784)
Acquisition of business, net of cash and funds held for clients' cash and cash equivalents	(6,658)	—
Net cash used in investing activities	(109,333)	(74,179)
Cash flows from financing activities:		
Net change in client fund obligations	403,375	496,695
Repurchases of common shares	—	(34,991)
Proceeds from exercise of stock options	—	85
Proceeds from employee stock purchase plan	2,045	2,824
Taxes paid related to net share settlement of equity awards	(9,060)	(21,749)
Net cash provided by financing activities	396,360	442,864
Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents	356,370	447,844
Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of period	1,045,927	1,239,731

Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of period	$ 1,402,297	$ 1,687,575
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Purchase of property and equipment and internal-use software, accrued but not paid	$ 2,832	$ 3,529
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes, net of refunds	$ 17	$ 375
Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	$ 129,530	$ 90,856
Funds held for clients' cash and cash equivalents	1,272,767	1,596,719
Total cash, cash equivalents and funds held for clients' cash and cash equivalents	$ 1,402,297	$ 1,687,575

(1) Certain amounts have been reclassified to reflect the adoption of Accounting Standards Update ("ASU") No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)."

See accompanying notes to unaudited consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Notes to the Unaudited Consolidated Financial Statements

(all amounts in thousands, except per share data)

(1) Organization and Description of Business

Paylocity Holding Corporation (the "Company") is a cloud-based provider of payroll and human capital management software solutions for medium-sized organizations. Services are provided in a Software-as-a-Service ("SaaS") delivery model utilizing the Company's cloud-based platform. 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) Consolidation and Use of Estimates

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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. 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 Company began investing corporate funds in available-for-sale securities during the first quarter of fiscal 2019 and as a result, reclassified $732 as of June 30, 2018 from prepaid expenses and other on the unaudited consolidated balance sheets to corporate investments for comparability purposes in order to conform to the current year's presentation.

(b) Interim Unaudited Consolidated Financial Information

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes 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 Company's financial position, results of operations, changes in stockholders' equity and cash flows. The results of operations for the three and nine months ended March 31, 2019 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 consolidated financial statements and related notes for the year ended June 30, 2018 included in the Company's Annual Report on Form 10-K filed with the SEC on August 10, 2018.

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(c) Revenue Recognition

The Company adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("Topic 606") effective as of July 1, 2018. Topic 606 requires revenue to be recognized when an entity transfers control of goods or services to a customer in an amount that reflects the consideration to which a company expects to be entitled to for those goods or services. To achieve this core principle, the Company recognizes revenue from contracts with customers based on the following five steps:

1) Identify the contract with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to performance obligations in the contract; and
5) Recognize revenue when or as the Company satisfies a performance obligation.

The Company derives its revenue from contracts predominantly from recurring and non-recurring service fees. While the majority of its agreements are generally cancellable by the client on 60 days' notice or less, the Company began entering into term arrangements in fiscal 2018, which are generally two years long. Recurring fees are derived from payroll, timekeeping, and HR-related cloud-based computing services as follows:

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

- Time and attendance reporting services, including time clock rentals, are delivered on a monthly basis, and

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

The majority of the Company's recurring fees are satisfied over time as services are provided. The performance obligations related to payroll services are satisfied upon the processing of the client's payroll with the fee charged and collected based on a per employee per payroll frequency fee. The performance obligations related to time and attendance services and HR related services are satisfied over time each month with the fee charged and collected based on a per employee per month fee. For subscription based fees which can include payroll, time and attendance and HR related services, the Company recognizes the applicable recurring fees over time each month with the fee charged and collected based on a per employee per month fee. The Company has certain optional performance obligations that are satisfied at a point in time including the sales of time clocks and W-2 services.

Non-recurring service fees consist mainly of nonrefundable implementation fees, which involve setting the client up in, and loading data into, the Company's cloud-based applications. These implementation activities are considered set-up activities. The Company has determined that the nonrefundable upfront fees provide certain clients with a material right to renew the contract. Implementation fees are deferred and amortized generally over a period up to 24 months.

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 and comprehensive income.

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 components of providing these services.

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The following table, consistent with the presentation of its unaudited consolidated statements of operations and comprehensive income, disaggregates revenue by recurring fees and implementation services and other, which it believes represents the major categories of revenue:

	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2019
Recurring fees	$ 129,976	$ 326,012
Implementation services and other	3,379	7,084
Total revenues from contracts	$ 133,355	$ 333,096

Deferred revenue

The timing of revenue recognition for recurring revenue is consistent with the timing of invoicing as they occur simultaneously upon the client payroll-processing period or by month. As such, the Company does not recognize contract assets or liabilities related to recurring revenue.

The nonrefundable upfront fees related to implementation services are invoiced with the client's first payroll period. The Company defers and amortizes these nonrefundable upfront fees generally over a period up to 24 months based on the type of contract. The following table summarizes the changes in deferred revenue (i.e. contract liability) related to these nonrefundable upfront fees as follows:

	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2019
Balance at beginning of period	$ 3,623	$ —
Deferral of revenue	4,730	10,243
Revenue recognized	(2,354)	(4,244)
Balance at end of period	$ 5,999	$ 5,999

Deferred revenue related to these nonrefundable upfront fees are recorded within accrued expenses and other long-term liabilities on the unaudited consolidated balance sheets. The Company expects to recognize these deferred revenue balances of $2,142 in fiscal 2019, $2,876 in fiscal 2020, $881 in fiscal 2021 and $100 thereafter.

Deferred contract costs

The Company defers certain selling and commission costs that meet the capitalization criteria under ASC 340-40, which were expensed as incurred prior to the adoption of Topic 606. The Company also capitalizes certain costs to fulfill a contract related to its proprietary products if they are identifiable, generate or enhance resources used to satisfy future performance obligations and are expected to be recovered under ASC 340-40. As discussed in Note 2(e), the Company determined that implementation services related to its proprietary products are not separate performance obligations for contracts entered into after July 1, 2018. Implementation fees are treated as nonrefundable upfront fees and the related implementation costs are required to be capitalized and amortized over the expected period of benefit, which is the period in which the Company expects to recover the costs and enhance its ability to satisfy future performance obligations.

The Company utilizes the portfolio approach to account for both the cost of obtaining a contract and the cost of fulfilling a contract. These capitalized costs are amortized over the expected period of benefit, which has been determined to be over 7 years based on the Company’s average client life and other qualitative factors, including rate of technological changes. The Company does not incur any additional costs to obtain or fulfill contracts upon renewal. The Company recognizes additional selling and commission costs and fulfillment costs when an existing client purchases additional services. These additional costs only relate to the additional services purchased and do not relate to the renewal of previous services.

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The following tables present the deferred contract costs balances and the related amortization expense for these deferred contract costs:

	For the Three Months Ended March 31, 2019			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 71,476	$ 10,544	$ (4,386)	$ 77,634
Costs to fulfill a contract	10,787	5,583	(538)	15,832
Total	$ 82,263	$ 16,127	$ (4,924)	$ 93,466

	For the Nine Months Ended March 31, 2019			
	Beginning Balance	Capitalized Costs	Amortization	Ending Balance
Costs to obtain a new contract	$ 68,107	$ 21,890	$ (12,363)	$ 77,634
Costs to fulfill a contract	—	16,833	(1,001)	15,832
Total	$ 68,107	$ 38,723	$ (13,364)	$ 93,466

Deferred contract costs are recorded within deferred contract costs and long-term deferred contract costs on the unaudited consolidated balance sheets. Amortization of deferred contract costs is recorded in implementation services and other cost of revenue, sales and marketing, and general and administrative in the unaudited consolidated statements of operations and comprehensive income.

Remaining Performance Obligations

The Company has applied the practical expedients as allowed under Topic 606 and elects not to disclose the value of unsatisfied performance obligations for contracts that have an original expected duration of one year or less and contracts for which the variable consideration is allocated entirely to wholly unsatisfied performance obligations. The Company’s remaining performance obligations related to minimum monthly fees on its term based contracts was approximately $40,962 as of March 31, 2019, which will be generally recognized over the next 24 months.

(d) Income Taxes

Income taxes are accounted for in accordance with ASC 740, Income Taxes, using the asset and liability method. The Company’s provision for income taxes is based on the annual effective rate 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 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.

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net-recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

(e) Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Topic 606 supersedes a majority of existing revenue recognition guidance under GAAP, and requires companies to recognize revenue when it transfers goods or services to a customer in an amount that reflects the consideration to which a company expects to be entitled. The standard also provides guidance on the recognition of costs related to obtaining and fulfilling a contract under Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers. The Company adopted the new standard, including subsequent amendments and Subtopic 340-40, effective as of July 1, 2018 using the

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modified retrospective method of transition, which limited the application of the new standard only to contracts that were not completed as of the effective date. The adoption of Topic 606 did not have a material impact in the timing or amount of revenue recognized. However, it did have a material impact on its unaudited consolidated balance sheet due to the deferral of costs of obtaining and fulfilling a contract as detailed below. The Company has updated its control framework for new internal controls and has updated existing controls relating to the new standard.

Under the legacy revenue standard through fiscal 2018, the Company accounted for implementation and recurring services each as a separate unit of account. The Company was able to establish standalone value for implementation services as supported by the activity of third-party resellers and other vendors that performed certain implementation services. The Company has observed that third party implementation activity has continued to decrease over time and at the same time, the Company has invested in proprietary applications and processes that impact implementation activities. The Company determined that from July 1, 2018 forward it no longer had a sufficient basis to establish standalone value of implementations for its proprietary products due to the culmination of the changes to the Company's applications and processes that eliminated the ability of third parties to perform implementation services. Similarly, the Company determined that these implementation services are not a separate performance obligation under Topic 606 for contracts entered into after July 1, 2018 and the associated implementation fees are treated as nonrefundable upfront fees which are deferred and amortized over a period of time instead of recognized upon completion. The Company recognized $2,191, net of deferred taxes, of contract assets for implementation fees related to open contracts as of July 1, 2018, which began when the Company was still able to establish stand-alone value for implementation activities. This adjustment was recorded through retained earnings (accumulated deficit) in the statement of changes in stockholder's equity upon adoption on July 1, 2018.

The Company also finalized the treatment of costs of obtaining and fulfilling a new contract under the new standard. The Company is now required to defer these costs and amortize them over the expected period of benefit, which it has determined to be 7 years. The Company recognized the cumulative effect related to the deferral of the costs of obtaining new contracts of $50,481, net of deferred taxes, which was recorded through retained earnings (accumulated deficit) in the statement of changes in stockholder's equity upon adoption on July 1, 2018.

The cumulative effect of the changes made to the July 1, 2018 balance sheet due to the adoption of Topic 606 were as follows:

	As Reported June 30, 2018	Adjustments due to Topic 606	Balances at July 1, 2018
Balance Sheet			
Assets			
Deferred contract costs	$ —	$ 14,783	$ 14,783
Prepaid expenses and other	11,248	1,730	12,978
Long-term deferred contract costs	—	53,324	53,324

Long-term prepaid expenses and other	1,504	1,226	2,730
Deferred income tax assets, net	22,140	(18,391)	3,749
Stockholders' Equity			
Retained earnings (accumulated deficit)	(6,678)	52,672	45,994

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The following tables summarize the impact from the adoption of Topic 606 on the Company's unaudited consolidated statements of operations and comprehensive income:

	Three Months Ended March 31, 2019		
	As Reported (Topic 606)	Balances under ASC 605	Impact from Adoption
Statement of Operations			
Revenues			
Recurring fees	$ 129,976	$ 130,403	$ (427)
Implementation services and other	3,379	1,314	2,065
Cost of Revenues			
Implementation services and other	7,380	12,324	(4,944)
Operating expenses			
Sales and marketing	27,699	33,740	(6,041)
General and administrative	23,208	23,426	(218)
Income tax expense (benefit)	8,726	5,403	3,323
Net income	28,026	18,508	9,518

	Nine Months Ended March 31, 2019		
	As Reported (Topic 606)	Balances under ASC 605	Impact from Adoption
Statement of Operations			
Revenues			
Recurring fees	$ 326,012	$ 327,311	$ (1,299)
Implementation services and other	7,084	3,412	3,672
Cost of Revenues			
Implementation services and other	20,955	36,494	(15,539)
Operating expenses			
Sales and marketing	80,687	90,034	(9,347)
General and administrative	68,915	69,388	(473)
Income tax expense (benefit)	4,588	(2,589)	7,177
Net income	43,582	23,027	20,555

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The following table summarizes the impact from the adoption of Topic 606 on the Company's unaudited consolidated balance sheet:

	March 31, 2019		
	As Reported (Topic 606)	Balances under ASC 605	Impact from Adoption
Balance Sheet			
Assets			
Deferred contract costs	$ 19,765	$ —	$ 19,765
Prepaid expenses and other	21,922	20,516	1,406
Long-term deferred contract costs	73,701	—	73,701
Long-term prepaid expenses and other	2,766	2,515	251
Deferred income tax assets, net	—	24,678	(24,678)
Liabilities			
Accrued expenses	48,396	45,178	3,218
Other long-term liabilities	1,925	8,815	(6,890)
Deferred income tax liabilities, net	890	—	890
Stockholders' Equity			
Retained earnings (accumulated deficit)	89,576	16,349	73,227

The following table summarizes the impact from the adoption of Topic 606 on the Company's unaudited consolidated statement of cash flows:

	Nine Months Ended March 31, 2019		
	As Reported (Topic 606)	Balances under ASC 605	Impact from Adoption
Statement of Cash Flows			
Net income	$ 43,582	$ 23,027	$ 20,555
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense (benefit)	4,584	(2,593)	7,177
Changes in operating assets and liabilities:			
Deferred contract costs	(25,359)	—	(25,359)
Prepaid expenses and other	(1,485)	(2,784)	1,299
Accrued expenses	5,299	8,971	(3,672)
Net cash provided by operating activities	79,159	79,159	—

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash: a consensus of the FASB Emerging Issues Task Force (“ASU 2016-18”), which requires that the statement of cash flows explain the change during a reporting period in total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Effective July 1, 2018, the Company adopted ASU 2016-18 on a retrospective basis and now includes funds held for clients’ cash and cash equivalents as a component of total cash, cash equivalents and funds held for clients’ cash and cash equivalents in the consolidated statement of cash flows. As a result, it reclassified certain amounts on its previously reported unaudited statement of cash flows for the nine-month period ending March 31, 2018 to conform to the requirements of the new standard. The adoption of this standard had no impact to the Company’s balance sheets, statements of operations or statements of changes in stockholders’ equity.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740) (“ASU 2018-05”) which incorporates the SEC’s Staff Accounting Bulletin 118 (“SAB 118”) issued on December 22, 2017. SAB 118 provides for a provisional measurement period for entities to finalize their accounting for certain income tax effects related to the Tax Cuts and Jobs Act (the “Act”), not to exceed one year from enactment of the new tax law. Entities are permitted to utilize reasonable estimates until they have finished analyzing the effects of the Act. The Company recognized provisional income tax effects of the Act during fiscal 2018 in accordance with SAB 118, and completed its accounting under the Act in December 2018. Refer to Note 8 for additional information.

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In August 2018, the SEC issued a final rule which requires public companies to disclose the changes in each caption of stockholders' equity and non-controlling interests for the current and comparative year-to-date periods, with subtotals for each interim period and the amount of dividends per share for each class of shares. This rule is effective for interim periods beginning after November 5, 2018, with early adoption permitted. The Company has included this disclosure beginning with its fiscal quarter ended March 31, 2019.

(f) Recently Issued Accounting Standards

In February 2016, the FASB established Topic 842, Leases, by issuing ASU 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; and ASU 2018-11, Targeted Improvements. The new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective on July 1, 2019, with early adoption permitted. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. The Company expects to adopt the new standard on July 1, 2019 and use the effective date as the date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before July 1, 2019.

While the Company continues to assess all of the effects of adoption, it currently believes the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on the balance sheet for operating leases; and (2) providing significant new disclosures about leasing activities. The Company expects to elect the 'package of practical expedients', which permits the Company not to reassess under the new standard the prior conclusions about lease identification, lease classification and initial direct costs.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"), which amends the requirements for fair value measurement disclosures. ASU 2018-13 removes, modifies or adds certain disclosure requirements under GAAP. This standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Any new disclosure requirements must be applied on a prospective basis in the interim and annual periods of initial adoption; all removed or modified requirements must be applied retrospectively to all periods presented. The Company plans to adopt this standard at the effective date and does not expect any material impact from adoption.

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 other recently issued standards that are not yet effective will not have a material impact on the Company's consolidated financial statements upon adoption.

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(3) Balance Sheet Information

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

Activity in the allowance for doubtful accounts was as follows:

Balance at June 30, 2018	$ 375
Charged to expense	220
Write-offs	(132)
Balance at March 31, 2019	$ 463

Capitalized internal-use software and accumulated amortization were as follows:

	June 30, 2018	March 31, 2019
Capitalized internal-use software	$ 67,678	$ 84,022
Accumulated amortization	(46,584)	(59,438)
Capitalized internal-use software, net	$ 21,094	$ 24,584

Amortization of capitalized internal-use software costs is included in Cost of Revenues-Recurring Revenues and amounted to $3,655 and $4,224 for the three months ended March 31, 2018 and 2019, respectively, and $10,358 and $12,854 for the nine months ended March 31, 2018 and 2019, respectively.

Property and equipment, net consist of the following:

	June 30, 2018	March 31, 2019
Office equipment	$ 3,743	$ 4,439

Computer equipment	29,768	33,893
Furniture and fixtures	10,382	10,789
Software	5,965	6,310
Leasehold improvements	36,366	42,442
Time clocks rented by clients	4,534	4,617
Total	90,758	102,490
Accumulated depreciation	(28,729)	(37,597)
Property and equipment, net	$ 62,029	$ 64,893

Depreciation expense amounted to $3,189 and $3,626 for the three months ended March 31, 2018 and 2019, respectively, and $9,206 and $10,671 for the nine months ended March 31, 2018 and 2019, respectively.

The Company's amortizable intangible assets and estimated useful lives are as follows:

	June 30, 2018	March 31, 2019	Useful Life
Client relationships	$ 18,130	$ 18,130	7 - 9 years
Non-solicitation agreements	600	600	2 - 4 years
Total	18,730	18,730	
Accumulated amortization	(5,728)	(7,416)	
Intangible assets, net	$ 13,002	$ 11,314	

Amortization expense for acquired intangible assets was $358 and $562 for the three months ended March 31, 2018 and 2019, respectively, and $1,076 and $1,688 for the nine months ended March 31, 2018 and 2019, respectively.

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Future amortization expense for acquired intangible assets is as follows, as of March 31, 2019:

Remainder of fiscal 2019	$ 563
Fiscal 2020	2,251
Fiscal 2021	2,251
Fiscal 2022	2,232
Fiscal 2023	2,118
Thereafter	1,899
Total	$ 11,314

The components of accrued expenses were as follows:

	June 30, 2018	March 31, 2019
Accrued payroll and personnel costs	$ 31,206	$ 31,355
Lease exit obligations	2,143	1,122
Deferred revenue	654	5,246
Other	8,238	10,673
Total accrued expenses	$ 42,241	$ 48,396

In June 2018, the Company ceased using approximately 110 rentable square feet of its former headquarters in Arlington Heights, Illinois in conjunction with relocating to its new Schaumburg, Illinois headquarters. The following table is a summary of the changes in the remaining lease exit obligations related to the Company's former headquarters, which is recorded in accrued expenses and other long-term liabilities on the unaudited consolidated balance sheets:

Balance at June 30, 2018	$ 3,261
Payments	(1,823)
Adjustments	94
Balance at March 31, 2019	$ 1,532

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(4) Corporate Investments and Funds Held for Clients

Corporate investments and funds held for clients consist of the following:

	June 30, 2018			
Type of Issue	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 137,193	$ —	$ —	$ 137,193
Funds held for clients' cash and cash equivalents	1,102,541	—	(3)	1,102,538
Available-for-sale securities:				
Commercial paper	50,703	3	(4)	50,702
Corporate bonds	37,508	8	(134)	37,382
Asset-backed securities	25,901	1	(55)	25,847
U.S. treasury securities	9,879	—	(2)	9,877
Total available-for-sale securities (1)	123,991	12	(195)	123,808
Total investments	$ 1,363,725	$ 12	$ (198)	$ 1,363,539

(1) Included within the fair value of total available-for-sale securities above is $732 of corporate investments and $123,076 of funds held for clients

	March 31, 2019			
Type of Issue	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 90,860	$ —	$ (4)	$ 90,856
Funds held for clients' cash and cash equivalents	1,596,721	—	(2)	1,596,719
Available-for-sale securities:				
Commercial paper	92,844	16	(12)	92,848
Corporate bonds	31,637	39	(21)	31,655
Asset-backed securities	37,725	30	(13)	37,742
U.S. treasury securities	12,461	—	(2)	12,459
Total available-for-sale securities (2)	174,667	85	(48)	174,704
Total investments	$ 1,862,248	$ 85	$ (54)	$ 1,862,279

(2) Included within the fair value of total available-for-sale securities above is $49,114 of corporate investments and $125,590 of funds held for clients

The Company began investing corporate funds in available-for-sale securities during the first quarter of fiscal 2019 and as a result, reclassified $732 as of June 30, 2018 from prepaid expenses and other on the unaudited consolidated balance sheets to corporate investments for comparability purposes in order to conform to the current year's presentation. Cash and cash equivalents and funds held for clients' cash and cash equivalents include demand deposit accounts, money market funds and commercial paper as of June 30, 2018 and March 31, 2019.

Classification of investments on the unaudited consolidated balance sheets is as follows:

	June 30, 2018	March 31, 2019
Cash and cash equivalents	$ 137,193	$ 90,856
Corporate investments	732	48,159
Funds held for clients	1,225,614	1,722,309
Long-term prepaid expenses and other	—	955
Total investments	$ 1,363,539	$ 1,862,279

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Available-for-sale securities that have been in an unrealized loss position for a period of less and greater than 12 months are as follows:

	June 30, 2018					
	Securities in an unrealized loss position for less than 12 months		Securities in an unrealized loss position for greater than 12 months		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Commercial paper	$ (4)	$ 23,657	$ —	$ —	$ (4)	$ 23,657
Corporate bonds	(134)	29,122	—	—	(134)	29,122
Asset-backed securities	(55)	17,960	—	—	(55)	17,960
U.S. treasury securities	(2)	4,933	—	—	(2)	4,933
Total available-for-sale securities	$ (195)	$ 75,672	$ —	$ —	$ (195)	$ 75,672

	March 31, 2019					
	Securities in an unrealized loss position for less than 12 months		Securities in an unrealized loss position for greater than 12 months		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Commercial paper	$ (12)	$ 58,454	$ —	$ —	$ (12)	$ 58,454
Corporate bonds	(3)	2,753	(18)	10,087	(21)	12,840
Asset-backed securities	(1)	5,497	(12)	4,872	(13)	10,369
U.S. treasury securities	(2)	12,459	—	—	(2)	12,459
Total available-for-sale securities	$ (18)	$ 79,163	$ (30)	$ 14,959	$ (48)	$ 94,122

The Company regularly reviews the composition of its portfolio to determine the existence of other-than-temporary-impairment ("OTTI"). The Company did not recognize any OTTI charges in accumulated other comprehensive loss during the three or nine months ended March 31, 2018 or 2019, nor does it believe that OTTI exists in its portfolio as of March 31, 2019. The Company plans to retain the securities in an unrealized loss position for a period of time sufficient enough to recover their amortized cost basis or until their maturity date. The Company believes that the unrealized losses on these securities were not due to deterioration in credit risk. The securities in an unrealized loss position held an A-1 rating or better as of March 31, 2019.

The Company did not make any material reclassification adjustments out of accumulated other comprehensive loss for realized gains and losses on the sale of available-for-sale securities during the three or nine months ended March 31, 2018 or 2019. Gross realized gains and losses on the sale of available-for-sale securities were immaterial for both the three and nine months ended March 31, 2018 and 2019.

Expected maturities of available-for-sale securities at March 31, 2019 are as follows:

	Amortized cost	Fair value
One year or less	$ 164,169	$ 164,174
One year to two years	8,998	9,025
Two years to three years	1,500	1,505
Total available-for-sale securities	$ 174,667	$ 174,704

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(5) Fair Value Measurement

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.

The Company measures certain cash and cash equivalents, accounts receivable, accounts payable and client fund obligations at fair value on a recurring basis using Level 1 inputs. The Company considers the recorded value of these financial assets and liabilities to approximate the fair value of the respective assets and liabilities at June 30, 2018 and March 31, 2019 based upon the short-term nature of these assets and liabilities.

Marketable securities, consisting of securities classified as available-for-sale as well as certain cash equivalents, are recorded at fair value on a recurring basis using Level 2 inputs obtained from an independent pricing service. Available-for-sale securities include commercial paper, corporate bonds, asset-backed securities and U.S. treasury securities. The independent pricing service utilizes a variety of inputs including benchmark yields, broker/dealer quoted prices, reported trades, issuer spreads as well as other available market data. The Company, on a sample basis, validates the pricing from the independent pricing service against another third-party pricing source for reasonableness. The Company has not adjusted any prices obtained by the independent pricing service, as it believes they are appropriately valued. There were no available-for-sale securities classified in Level 3 of the fair value hierarchy at June 30, 2018 or March 31, 2019, and the Company did not transfer assets between Levels during the nine months ended March 31, 2018 or 2019.

The fair value level for the Company’s cash and cash equivalents and available-for-sale securities is as follows:

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 137,193	$ 137,193	$ —	$ —
Funds held for clients' cash and cash equivalents	1,102,538	1,076,414	26,124	—
Available-for-sale securities:				
Commercial paper	50,702	—	50,702	—
Corporate bonds	37,382	—	37,382	—
Asset-backed securities	25,847	—	25,847	—
U.S. treasury securities	9,877	—	9,877	—
Total available-for-sale securities	123,808	—	123,808	—
Total investments	$ 1,363,539	$ 1,213,607	$ 149,932	$ —

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	March 31, 2019			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 90,856	$ 64,850	$ 26,006	$ —
Funds held for clients' cash and cash equivalents	1,596,719	1,575,810	20,909	—
Available-for-sale securities:				
Commercial paper	92,848	—	92,848	—
Corporate bonds	31,655	—	31,655	—
Asset-backed securities	37,742	—	37,742	—
U.S. treasury securities	12,459	—	12,459	—
Total available-for-sale securities	174,704	—	174,704	—
Total investments	$ 1,862,279	$ 1,640,660	$ 221,619	$ —

The Company began investing corporate funds in available-for-sale securities during the first quarter of fiscal 2019 and as a result, reclassified $732 as of June 30, 2018 from prepaid expenses and other on the unaudited consolidated balance sheets to corporate investments for comparability purposes in order to conform to the current year's presentation.

(6) Benefit Plans

(a) Equity Incentive Plan

The Company maintains a 2008 Equity Incentive Plan (the "2008 Plan") and a 2014 Equity Incentive Plan (the "2014 Plan") pursuant to which the Company has reserved shares of its common stock for issuance to its employees, directors and non-employee third parties. The 2014 Plan serves as the successor to the 2008 Plan and permits the granting of options to purchase common stock and other equity incentives at the discretion of the compensation committee of the Company's board of directors. No new awards have been or will be issued under the 2008 Plan since the effective date of the 2014 Plan. Outstanding awards under the 2008 Plan continue to be subject to the terms and conditions of the 2008 Plan. The number of shares of common stock reserved for issuance under the 2014 Plan may increase each calendar year, continuing through and including January 1, 2024. The number of shares added each year may be equal to the lesser of (a) four and five tenths percent (4.5%) of the number of shares of common stock of the Company issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Company's board of directors. The Company's board of directors determined that it would not increase the number of shares in reserve for issuance under the 2014 Plan as of January 1, 2019.

As of March 31, 2019, the Company had 13,157 shares allocated to the plans, of which 3,423 shares were subject to outstanding options or awards. Generally, the Company issues previously unissued shares for the exercise of stock options or vesting of awards; however, shares previously subject to 2014 Plan grants or awards that are forfeited or net settled at exercise or release may be reissued to satisfy future issuances.

The following table summarizes changes in the number of shares available for grant under the Company’s equity incentive plans during the nine months ended March 31, 2019:

	Number of Shares
Available for grant at July 1, 2018	10,030
RSUs granted	(760)
Shares withheld in settlement of taxes and/or exercise price	362
Forfeitures	171
Shares removed	(69)
Available for grant at March 31, 2019	9,734

Shares removed represents forfeitures of shares and shares withheld in settlement of taxes and/or payment of exercise price related to grants made under the 2008 Plan. As noted above, no new awards will be issued under the 2008 Plan.

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Stock-based compensation expense related to stock options, restricted stock units (“RSUs”), and the Employee Stock Purchase Plan (as described below) is included in the following line items in the accompanying unaudited consolidated statements of operations and comprehensive income:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2019	2018	2019
Cost of revenue – recurring	$ 728	$ 784	$ 2,084	$ 2,519
Cost of revenue – implementation services and other	358	408	1,107	1,215
Sales and marketing	1,537	1,799	5,680	5,496
Research and development	926	1,287	2,742	4,025
General and administrative	3,918	5,035	10,278	15,582
Total stock-based compensation expense	$ 7,467	$ 9,313	$ 21,891	$ 28,837

In addition, the Company capitalized $550 and $659 of stock-based compensation expense in its capitalized internal-use software costs in the three months ended March 31, 2018 and 2019, respectively, and $1,454 and $1,980 in the nine months ended March 31, 2018 and 2019, respectively.

Under the 2008 and 2014 Plans, the exercise price of each option cannot be less than the fair value of a share of common stock on the grant date. The options typically vest ratably over a three or four year period and expire 10 years from the grant date. Stock-based compensation expense for the fair value of the options at their grant date is recognized ratably over the vesting schedule for each separately vesting portion of the award.

There were no stock options granted during the nine months ended March 31, 2018 or 2019. The table below presents stock option activity during the nine months ended March 31, 2019:

	Outstanding Options			
	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Balance at July 1, 2018	1,907	$ 12.40	5.00	$ 88,595
Options exercised	(329)	$ 12.60		
Options forfeited	(4)	$ 20.78		
Balance at March 31, 2019	1,574	$ 12.33	4.22	$ 120,972

Options exercisable at March 31, 2019	1,547	$ 11.93	4.18	$ 119,496
Options vested and expected to vest at March 31, 2019	1,573	$ 12.32	4.22	$ 120,944

The total intrinsic value of options exercised was $3,758 and $7,197 during the three months ended March 31, 2018 and 2019, respectively, and $31,013 and $20,901 during the nine months ended March 31, 2018 and 2019, respectively. At March 31, 2019, there was $37 of total unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options granted under the Plan. That cost is expected to be recognized over a weighted average period of 0.38 years.

The Company may also grant RSUs under the 2014 Plan with terms determined at the discretion of the compensation committee of the Company's board of directors. RSUs generally vest over four years following the grant date. Certain RSU awards have time-based vesting conditions while other RSUs vest based on the achievement of certain revenue growth and Adjusted EBITDA margin targets in future fiscal years.

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The following table represents restricted stock unit activity during the nine months ended March 31, 2019:

	Units	Weighted average grant date fair value
RSU balance at July 1, 2018	1,879	$ 43.39
RSUs granted	760	$ 66.42
RSUs vested	(623)	$ 41.23
RSUs forfeited	(167)	$ 48.08
RSU balance at March 31, 2019	1,849	$ 53.19
RSUs expected to vest at March 31, 2019	1,705	$ 53.09

At March 31, 2019, there was $44,513 of total unrecognized compensation cost, net of estimated forfeitures, related to unvested restricted stock units granted. That cost is expected to be recognized over a weighted average period of 1.87 years.

(b) Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan ("ESPP"), the Company can grant stock purchase rights to all eligible employees during specific offering periods not to exceed twenty-seven months. Each offering period will begin on the trading day closest to May 16 and November 16 of each year. Shares are purchased through employees' payroll deductions, up to a maximum of 10% of employees' compensation for each purchase period, at a purchase price equal to 85% of the lesser of the fair market value of the Company's common stock at the first trading day of the applicable offering period or the purchase date. Participants may purchase up to $25 worth of common stock or 2 shares of common stock in any one year. The ESPP is considered compensatory and results in compensation expense.

As of March 31, 2019, a total of 1,053 shares of common stock were reserved for future issuances under the ESPP. The number of shares of common stock reserved for issuance under the ESPP may increase each calendar year, continuing through and including January 1, 2024. The number of shares added each year may be equal to the lesser of (a) 400, (b) seventy-five one hundredths percent (0.75%) of the number of shares of common stock of the Company issued and outstanding on the immediately preceding December 31, or (c) an amount determined by the Company's board of directors. The Company's board of directors determined that it would not increase the number of shares in reserve for issuance under the ESPP as of January 1, 2019.

The Company issued 58 shares upon the completion of its six-month offering period ending November 15, 2018. The Company recorded compensation expense attributable to the ESPP of $323 and $516 for the three months ended

March 31, 2018 and 2019, respectively, and $971 and $1,401 for the nine months ended March 31, 2018 and 2019, respectively, which is included in the summary of stock-based compensation expense above. The grant date fair value of the ESPP offering periods was estimated using the following weighted average assumptions:

	Nine Months Ended March 31,			
	2018		2019	
Valuation assumptions:				
Expected dividend yield	0	%	0	%
Expected volatility	28.3 - 39.1	%	33.5 - 38.3	%
Expected term (years)	0.5		0.5	
Risk free interest rate	1.02 - 1.35	%	2.10 - 2.48	%

(c) 401(k) Plan

The Company maintains a 401(k) plan with a matching provision that covers all eligible employees. The Company matches 50% of employees' contributions up to 8% of their gross pay. Contributions were $1,276 and $1,604 for the three months ended March 31, 2018 and 2019, respectively, and $3,382 and $4,138 for the nine months ended March 31, 2018 and 2019, respectively.

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(7) Net Income Per Share

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income 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. The Company's potential common shares consist of the incremental common shares issuable upon the exercise of stock options, the release of restricted stock units, and the shares purchasable via the employee stock purchase plan as of the balance sheet date. The following table presents the calculation of basic and diluted net income per share:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2019	2018	2019
Numerator:				
Net income	$ 39,177	$ 28,026	$ 40,151	$ 43,582
Denominator:				
Weighted-average shares used in computing net income per share:				
Basic	52,615	52,934	52,334	52,880
Weighted-average effect of potentially dilutive shares:				
Employee stock options, restricted stock units and employee stock purchase plan shares	2,415	2,531	2,383	2,400
Diluted	55,030	55,465	54,717	55,280
Net income per share:				
Basic	$ 0.74	$ 0.53	$ 0.77	$ 0.82
Diluted	$ 0.71	$ 0.51	$ 0.73	$ 0.79

The Company excluded 28 and 18 outstanding RSUs from the diluted per share calculation during the three months ended March 31, 2018 and 2019, respectively, and 121 and 49 outstanding RSUs from the diluted per share calculation during the nine months ended March 31, 2018 and 2019, respectively, because to include them would have been anti-dilutive.

In August 2018, the Company announced that its board of directors approved a program to repurchase up to $35,000 of the Company's common stock, with authorization through August 14, 2019. The Company completed the repurchase program during the first quarter of fiscal 2019 and repurchased 442 shares for $34,991. All shares of common stock repurchased were retired.

(8) Income Taxes

The Company's quarterly provision for income taxes is based on the annual effective rate method. The Company's quarterly provision for income taxes also includes the tax impact of certain unusual or infrequently occurring items, if any, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, and other discrete items in the interim period in which they occur.

The Company recorded income tax expense (benefit) of $(18,497) and $8,726 for the three months ended March 31, 2018 and 2019, respectively, and $(18,573) and $4,588 for the nine months ended March 31, 2018 and 2019, respectively. The Company's effective tax rates for the three and nine months ended March 31, 2018 differed from statutory rates primarily due to the release of substantially all of the Company's valuation allowance and excess tax benefits from employee stock exercises partially offset by the estimated impacts of the Tax Cuts and Jobs Act of 2017 (the "Act"). The Company's effective tax rates for the three and nine months ended March 31, 2019 differed from statutory rates primarily due to excess tax benefits from employee stock exercises partially offset by various permanent adjustments.

The Company reviews the likelihood that it will realize the benefit of its deferred tax assets and, therefore, the need for a valuation allowance on a quarterly basis. The Company established a valuation allowance in fiscal 2014 on all of its net deferred tax assets except for deferred tax liabilities associated with indefinite-lived intangible assets, given

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that the Company determined that it was more likely than not that the Company would not recognize the benefits of its net operating loss carryforwards prior to their expiration. The Company continued to record a valuation allowance through the first six months of fiscal 2018. In the third quarter of fiscal 2018, management concluded that all of the valuation allowance for the Company's U.S. federal deferred tax assets and substantially all state deferred tax assets was no longer needed. This was primarily due to three years' cumulative income through the third quarter of fiscal 2018 and the forecast of future taxable income. As of March 31, 2018, based on the evaluation of positive and negative evidence, management believed it was more likely than not that the net deferred tax assets would be realized for all federal and state purposes with the exception of deferred tax assets associated with certain state tax credits that have a limited carryforward period. As of March 31, 2019, the Company continued to maintain a valuation allowance of $355 for state tax benefits. Such assessment may change in the future as further evidence becomes available.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. Over the long term, the Company generally expects to benefit from the lower statutory rates provided by the Act. The Company operates solely in the United States; therefore, the international provisions of the Act do not apply. In accordance with ASC 740, during the second quarter of fiscal 2018, the Company modified its current federal statutory rate for the year to account for the rate change.

In December 2017, the staff of the SEC issued guidance under Staff Accounting Bulletin No. 118 (later codified into ASU 2018-05), "Income Tax Accounting Implications of the Tax Cuts and Jobs Act," allowing taxpayers to record provisional amounts for reasonable estimates when they do not have the necessary information available, prepared or analyzed in reasonable detail to complete their accounting for certain income tax effects of the Tax Act. The SEC also issued rules that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the related tax impacts. The Company's analysis was completed during the second quarter of fiscal 2019 with no additional adjustments made.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 under Part II, Item 1A: "Risk Factors."

Overview

We are a cloud-based provider of payroll and human capital management ("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. 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.

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 300 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 functionalities. 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.

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 mid-market 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, 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.

Paylocity Holding Corporation is a Delaware corporation, which was formed in November 2013. Our business operations, excluding interest earned on certain cash holdings and expenses associated with certain secondary stock offerings, have historically been, and are currently, conducted by its wholly owned subsidiaries, and the financial results presented herein are entirely attributable to the results of such wholly owned subsidiaries' 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 $108.6 million for the three months ended March 31, 2018 to $136.2 million for the three months ended March 31, 2019, representing a 25% year-over year increase. Recurring revenue increased from $270.6 million for the nine months ended March 31, 2018 to $340.2 million for the nine months ended March 31, 2019, representing a 26% year-over-year increase. Recurring revenue represented 96% of total revenue during both the three and nine months ended March 31, 2018 and 98% of total revenue during both the three months and nine months ended March 31, 2019.

Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA

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

Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA are not measurements of financial performance under generally accepted accounting principles in the United States ("GAAP"), and you should not consider Adjusted Gross Profit as an alternative to gross profit, Adjusted Recurring Gross Profit as an alternative to total recurring revenues, or Adjusted EBITDA as an alternative to net income or cash provided by operating activities, in each case as determined in accordance with GAAP. In addition, our definition of Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA may be different than the definition utilized for similarly-titled measures used by other companies.

We define Adjusted Gross Profit as gross profit before amortization of capitalized internal-use software costs, stock-based compensation expense and employer payroll taxes related to stock releases and option exercises. We define Adjusted Recurring Gross Profit as total recurring revenues after cost of recurring revenues and before amortization of capitalized internal-use software costs, stock-based compensation expense and employer payroll taxes related to stock releases and option exercises. We define Adjusted EBITDA as net income before interest expense, income tax expense (benefit), depreciation and amortization expense and stock-based compensation expense and employer payroll taxes related to stock releases and option exercises. The table below sets forth our Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA for the periods presented.

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	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2019	2018	2019
	(in thousands)		(in thousands)	
Adjusted Gross Profit	$ 79,567	$ 105,300	$ 184,299	$ 250,541
Adjusted Recurring Gross Profit	$ 86,012	$ 108,844	$ 206,462	$ 263,009
Adjusted EBITDA	$ 35,765	$ 54,816	$ 65,602	$ 104,179

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2019	2018	2019
	(in thousands)		(in thousands)	
Reconciliation from Gross Profit to Adjusted Gross Profit				
Gross profit	$ 74,755	$ 99,807	$ 170,460	$ 233,503
Amortization of capitalized internal-use software costs	3,655	4,224	10,358	12,854
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	1,157	1,269	3,481	4,184
Adjusted Gross Profit	$ 79,567	$ 105,300	$ 184,299	$ 250,541

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2019	2018	2019
	(in thousands)		(in thousands)	
Reconciliation from Total Recurring Revenues to Adjusted Recurring Gross Profit				
Total recurring revenues	$ 108,576	$ 136,173	$ 270,562	$ 340,176
Cost of recurring revenues	26,982	32,365	76,711	92,802
Recurring gross profit	81,594	103,808	193,851	247,374
Amortization of capitalized internal-use software costs	3,655	4,224	10,358	12,854
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	763	812	2,253	2,781
Adjusted Recurring Gross Profit	$ 86,012	$ 108,844	$ 206,462	$ 263,009

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2019	2018	2019
	(in thousands)		(in thousands)	
Reconciliation from Net Income to Adjusted EBITDA				

Net income	$ 39,177	$ 28,026	$ 40,151	$ 43,582
Income tax expense (benefit)	(18,497)	8,726	(18,573)	4,588
Depreciation and amortization expense	7,202	8,412	20,640	25,213
EBITDA	27,882	45,164	42,218	73,383
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	7,692	9,652	23,193	30,796
Acquisition-related costs	191	—	191	—
Adjusted EBITDA	$ 35,765	$ 54,816	$ 65,602	$ 104,179

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 client size has been on average over 100 employees. We derive revenue from a client based on the solutions purchased by the client, the number

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of client employees as well as the amount, type and timing of services provided with respect to 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 94% and 93% of our total revenues during the three months ended March 31, 2018 and 2019, respectively, and 94% of our total revenues during both the nine months ended March 31, 2018 and 2019, respectively.

While the majority of our agreements with clients are generally cancellable by the client on 60 days' notice or less, we began entering into term arrangements in fiscal 2018, which are generally two years long. 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 the related performance obligations have been satisfied.

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 demand deposit accounts with financial institutions with which we have automated clearing house, or ACH, arrangements. We also earn interest by investing a portion of funds held for clients in highly liquid, investment-grade marketable securities.

Implementation Services and Other

Implementation services and other revenues primarily consist of implementation fees charged to new clients for professional services provided to implement 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 processed using our solution. We implement additional HCM products as requested by clients and leverage the data within our payroll solution to accelerate our implementation processes. With the adoption of Topic 606, we defer and amortize implementation fees related to our proprietary products over a period generally up to 24 months, which previously were recognized upon completion. Refer to Note 2 of the Notes to the Unaudited Consolidated Financial Statements for additional information regarding the adoption of Topic 606.

Cost of Revenues

Cost of Recurring Revenues

Cost of recurring revenues is generally expensed as incurred, and includes costs to provide our payroll and other HCM solutions primarily consisting of employee-related expenses, including wages, stock-based compensation, 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 amortization of capitalized internal-use software costs, delivery costs and computing 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 internal-use software costs, which are then all amortized as a cost of recurring revenues. We amortized $3.7 million and $4.2 million of capitalized internal-use software costs during the three months ended March 31, 2018 and 2019, respectively, and $10.4 million and $12.9 million of capitalized internal-use software costs during the nine months ended March 31, 2018 and 2019, respectively.

Cost of Implementation Services and Other

Cost of implementation services and other consists primarily of employee-related expenses, including wages, stock-based compensation, bonuses and benefits involved in the implementation of our payroll and other HCM solutions for new clients. With the adoption of Topic 606, cost of implementation services related to our proprietary products are capitalized and amortized over a period of 7 years, which previously were expensed as incurred. 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

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future. Refer to Note 2 of the Notes to the Unaudited Consolidated Financial Statements for additional information regarding the adoption of Topic 606.

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, stock-based compensation, bonuses and benefits, marketing expenses and other related costs. With the adoption of Topic 606, we capitalize certain selling and commission costs related to new contracts or purchases of additional services by our existing clients, which were previously expensed as incurred. Commissions are typically paid within two months after the start of service. Bonuses paid to sales staff for attainment of certain annual performance criteria are accrued in the fiscal year and are subsequently paid annually in the first fiscal quarter of the following year. We generally recognize these costs over a period of 7 years. Refer to Note 2 of the Notes to the Unaudited Consolidated Financial Statements for additional information regarding the adoption of Topic 606.

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, stock-based compensation, bonuses and benefits. 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 internal-use software costs 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 the three and nine months ended March 31, 2018 and 2019.

	Three Months Ended	Nine Months Ended

	March 31,		March 31,	
	2018	2019	2018	2019
	(in thousands)		(in thousands)	
Capitalized portion of research and development	$ 4,871	$ 5,645	$ 12,966	$ 16,344
Expensed portion of research and development	9,058	12,688	27,227	36,886
Total research and development	$ 13,929	$ 18,333	$ 40,193	$ 53,230

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 employee-related costs, including wages, stock-based compensation, bonuses and benefits for our administrative, finance, accounting, and human resources departments. Additional expenses include consulting and professional fees, occupancy costs, insurance and other corporate expenses. We expect our general and administrative expenses to continue to increase in absolute dollars as our company continues to grow.

Other Income

Other income generally consists of interest income related to interest earned on our cash and cash equivalents and corporate investments, net of losses on disposal of property and equipment.

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Results of Operations

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2019	2018	2019
	(in thousands)		(in thousands)	
Consolidated Statements of Operations Data:				
Revenues:				
Recurring fees	$ 105,857	$ 129,976	$ 264,443	$ 326,012
Interest income on funds held for clients	2,719	6,197	6,119	14,164
Total recurring revenues	108,576	136,173	270,562	340,176
Implementation services and other	4,831	3,379	10,349	7,084
Total revenues	113,407	139,552	280,911	347,260
Cost of revenues:				
Recurring revenues	26,982	32,365	76,711	92,802
Implementation services and other	11,670	7,380	33,740	20,955
Total cost of revenues	38,652	39,745	110,451	113,757
Gross profit	74,755	99,807	170,460	233,503
Operating expenses:				
Sales and marketing	26,004	27,699	68,782	80,687
Research and development	9,058			