As filed with the Securities and Exchange Commission on April 7, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-14493

VIVO PARTICIPAÇÕES S.A.

(Exact name of Registrant as specified in its charter)

VIVO Holding Company

(Translation of Registrant s name into English)

The Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Av. Doutor Chucri Zaidan 860, 04583-110

São Paulo, SP, Brazil

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
Preferred Shares, without par value	New York Stock Exchange*
American Depositary Shares (as evidenced by American Depositary Receipts), each representing 1 preferred share	New York Stock Exchange

* Not for trading purposes, but only in connection with the registration on the New York Stock Exchange of American Depositary Shares representing those preferred shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares of each class as of December 31, 2005:

Title of Class	Number of Shares Outstanding
Common Stock	250,457,704
Preferred Stock	411,866,638

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

¨ Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

¨ Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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.

x Yes ¨ No

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

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-accelerated Filer x

Indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes x No

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INTRODUCTION

All references in this annual report to:

1xRTT are to 1x Radio Transmission Technology, the CDMA 2000 1x technology, which pursuant to the ITU (International Telecommunication Union) and in accordance with the IMT-2000 rules, is the 3G (third generation) technology;

ADRs are to the American Depositary Receipts evidencing our ADSs;

ADSs are to our American Depositary Shares, each representing 1 share of our non-voting preferred stock. On April 1, 2005, TCP approved a reverse stock split in which every 2,500 preferred shares were converted into one preferred share. There were no reverse splits of ADRs. Thus, there were no fractional ADRs resulting from the reverse split. Since May 4, 2005, each ADR represents one (1) preferred share;

AMPS are to Advanced Mobile Phone System, a radio interface technology for cellular networks based on spectral spreading of the radio signal and channel division in the frequency domain;

ANATEL are to *Agência Nacional de Telecomunicações ANATEL,* the Brazilian telecommunication regulatory agency;

BOVESPA are to the *Bolsa de Valores de São Paulo*, the São Paulo stock exchange;

Brazilian Central Bank, BACEN, Central Bank of Brazil or Central Bank are to the *Banco Central do Brasil*, the Brazilian central bank;

Brazilian Corporate Law are to Law No. 6,404 of December, 1976, as amended by Law No. 9,457 of May 1997 and by Law No. 10,303 of October 2001;

Brazilian government are to the federal government of the Federative Republic of Brazil;

CDMA are to Code Division Multiple Access, an aerial interface technology for cellular networks based on spectral spreading of the radio signal and channel division in the code domain;

CDMA 2000 1xEV-DO are to a 3G (third generation) access technology with data transmission speed of up to 2.4 megabytes per second;

Commission are to the U.S. Securities and Exchange Commission;

CVM are to the *Comissão de Valores Mobiliários*, the Brazilian securities commission;

General Telecommunications Law are to *Lei Geral de Telecomunicações*, as amended, which regulates the telecommunications industry in Brazil;

GSM are to the Global System for Mobile Communications, a service rendered by concession from ANATEL for a specific frequency range;

Net additions are to the total number of new customers acquired in the period minus the reduction in the number of customers;

NYSE are to the New York Stock Exchange;

real, *reais* or R$ are to Brazilian *reais*, the official currency of Brazil;

SMC are to *Serviço Movél Celular* (Mobile Cellular Service), a service rendered pursuant to a concession granted by ANATEL to provide mobile service in a specific frequency range;

SMP are to *Serviço Móvel Pessoal* (Personal Cellular Service), a service rendered pursuant to an authorization granted by ANATEL to provide mobile service in a specific frequency range;

SMS are to text messaging services for cellular handsets, which allow customers to send and receive alphanumerical messages;

TDMA are to Time Division Multiple Access, a radio interface technology for cellular networks based on spectral spreading of the radio signal and channel division in the time domain;

Telebrás are to Telecomunicações Brasileiras S.A. Telebrás;

The Merger are to the merger of the Vivo Companies as discussed in Item 4 Information on the Company Merger of the Vivo Companies ;

US$, dollars or U.S. dollars are to United States dollars;

Vivo, TCP, the Company, we, our and us are to *Vivo Participações S.A*. (formerly known as *Telesp Celular Participações*) and consolidated subsidiaries (unless the context otherwise requires);

Vivo brand are to the brand used in Brazil in the operations of the Vivo Companies, which together constitute the assets of the Brasilcel joint venture between *Portugal Telecom* and *Telefónica Móviles*;

Vivo Companies are to TCP (renamed *Vivo Participações S.A.*), TCO, TLE, TSD, and Celular CRT, collectively; and

WAP are to Wireless Application Protocol, an open and standardized protocol started in 1997, which allows access to Internet servers through specific equipment, a WAP Gateway at the carrier, and WAP browsers in customers handsets.

TCP s subsidiaries and other entities formerly under common control of Brasilcel include:

TCP subsidiaries

Telesp Celular S.A., also referred to as Telesp Celular or TC;

Global Telecom S.A., also referred to as Global Telecom or GT; and

Tele Centro Oeste Celular Participações, or TCO, which includes TCO s B-Band subsidiary, NBT;

Entities formerly under common control of Brasilcel

Celular CRT Participações S.A. and its consolidated subsidiaries, or Celular CRT;

Tele Leste Celular Participações S.A. and its consolidated subsidiaries, or TLE; and

Tele Sudeste Celular Participações S.A. and its consolidated subsidiaries, or TSD;

Unless otherwise specified, data relating to the Brazilian telecommunications industry included in this annual report were obtained from ANATEL.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as of December 31, 2005, 2004 and for the three years in the period ended December 31, 2005 have been prepared in accordance with the accounting practices adopted in Brazil, as prescribed by Brazilian Corporate Law, or the Brazilian GAAP Method, which differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 37 to our financial statements appearing elsewhere in this annual report describes the principal differences between the Brazilian Corporate Law Method and U.S. GAAP as they relate to us, and provides a reconciliation to U.S. GAAP of net loss and shareholders equity. These consolidated financial statements have been audited by *Deloitte Touche Tohmatsu Auditores Independentes*.

Prior to 2003, we presented financial information in our annual report on Form 20-F using the price-level accounting methodology prescribed by the Brazilian Federal Accountancy Council. Beginning with the fiscal year ended December 31, 2003, we changed to the Brazilian Corporate Law Method because we do not primarily rely on price-level accounting in reporting to investors and regulatory authorities in Brazil. For consistency, we have presented all our financial information in this annual report, in accordance with the Brazilian Corporate Law Method. As a result, the financial information included in this annual report as of and for the year ended

December 31, 2002 or for previous years is different from the information we presented in our annual report for the year ended December 31, 2002 or for previous years. See note 2 to our consolidated financial statements included herein.

Our consolidated financial statements include the results of Telesp Celular. In addition, since December 27, 2002, we have consolidated 100% of the results of Global Telecom, and, since May 1, 2003, we have also consolidated TCO s results due to our acquisition of this company.

FORWARD LOOKING STATEMENTS

Certain sections in this annual report, principally in Item 3.D. Key Information Risk Factors, Item 4 Information on the Company and Item 5 Operating and Financial Review and Prospects, contain information that is forward-looking, including but not limited to:

- statements concerning our operations and prospects;
- the size of the Brazilian telecommunications market;
- estimated demand forecasts;
- our ability to secure and maintain telecommunications infrastructure licenses, rights of way and other regulatory approvals;
- our strategic initiatives and plans for business growth;
- industry conditions;
- our funding needs and financing sources;
- network completion and product development schedules;
- expected characteristics of competing networks, products and services;
- quantitative and qualitative disclosures about market risks;
- other statements of management s expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts; and
- other factors identified or discussed under Item 3.D. Key Information Risk Factors.

Forward looking statements may also be identified by words such as believe, expect, anticipate, project, intend, should, seek, estimat similar expressions. Forward-looking information involves risks and uncertainties that could significantly affect expected results. The risks and uncertainties include, but are not limited to:

the short history of our operations as an independent, private-sector entity and the introduction of competition to the Brazilian telecommunications sector;

the cost and availability of financing;

uncertainties relating to political and economic conditions in Brazil;

inflation, interest rate and exchange rate risks;

the Brazilian government s telecommunications policy; and

the adverse determination of disputes under litigation.

We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected financial data as of December 31, 2005, 2004 and for the three years in the period ended December 31, 2005 included in this annual report have been derived from our audited consolidated financial statements and notes thereto included elsewhere in this annual report and audited by *Deloitte Touche Tohmatsu Auditores Independentes*. The selected financial data as of December 31, 2003, 2002 and 2001 and for the two years in the period ended December 31, 2002 included in this annual report have been derived from our audited financial statements and notes thereto audited by *Deloitte Touche Tohmatsu Auditores Independentes*, which are not included in this annual report. See Presentation of Financial Information above for additional information.

In April 2003, we acquired 64.03% of the outstanding voting capital stock of TCO. We acquired additional shares of voting capital stock of TCO in a public tender offer in November, 2003, bringing the percentage of TCO s outstanding voting capital stock we owned to 86.19%. Since May 1, 2003, TCP has consolidated TCO s results due to the acquisition of its control. In October 2004 we acquired additional preferred shares of TCO in a second public tender offer. In July 2005, we acquired additional shares of voting capital stock of TCO in a capital increase bringing our percentage ownership of TCO s voting capital stock to 90.59% (accounting for treasury shares that were canceled in July 2005).

In February, 2006, TCO became a wholly-owned subsidiary of TCP (at which time TCP was renamed Vivo Participações S.A., or Vivo) pursuant to the Merger (as defined in Item 4.A. Information on the Company Our History and Development), whereby holders of common shares, preferred shares or (where applicable) ADSs of TCO and the other constituent companies received common shares, preferred shares or ADSs, respectively, of TCP. The Merger was completed on March 30, 2006 and on March 31, 2006 our shares began being traded under Vivo s ticker on the BOVESPA and NYSE. Vivo became the holding company of TCO and of the subsidiaries of the other companies. See Item 4.A. Information on the Company Our History and Development below for additional information on the Merger.

Our consolidated financial statements are prepared in accordance with the Brazilian Corporate Law Method, which differs in certain material respects from U.S. GAAP. See note 36 to our consolidated financial statements for a summary of (i) the differences between the Brazilian Corporate Law Method and U.S. GAAP as they relate to us, (ii) a reconciliation to U.S. GAAP of shareholders equity as of December 31, 2005 and 2004, and (iii) our net gain for the year ended December 31, 2005 and net loss for the years ended December 31, 2004 and 2003.

The following tables present a summary of our selected financial data at the dates and for each of the periods indicated. You should read the following information together with our financial statements and the notes thereto included elsewhere in this annual report and with Item 5. Operating and Financial Review and Prospects.

	Year ended December 31,				
	2005	2004	2003	2002	2001
	(in millions of *reais*, except per share data)				
Income Statement Data:					
Brazilian Corporate Law Method					
Net operating revenue	7,473.1	7,341.0	6,046.3	3,415.0	2,966.1
Cost of services and goods sold	(3,357.5)	(3,326.2)	(3,020.5)	(1,739.4)	(1,724.2)
Gross profit	4,115.6	4,014.8	3,025.8	1,675.6	1,241.9
Operating expenses:					
Selling expenses	(2,626.5)	(1,909.3)	(1,264.9)	(526.9)	(537.3)
General and administrative expenses	(659.4)	(620.6)	(561.3)	(343.2)	(317.5)
Other net operating income (expenses)	(343.0)	(169.9)	(145.0)	(39.8)	(41.1)
Operating income before equity in losses of unconsolidated subsidiary and net financial expenses	486.7	1,315.0	1,054.6	765.7	346.0
Equity in losses of unconsolidated subsidiary				(890.7)	(653.6)
Net financial expenses	(917.6)	(1,095.4)	(1,133.5)	(808.4)	(541.5)
Operating income (loss)	(430.9)	219.6	(78.9)	(933.4)	(849.1)
Net non-operating income (expenses)	(65.3)	(51.2)	(25.7)	10.0	(0.4)
Extraordinary item				(170.8)	(278.8)
Income (loss) before income taxes and minority interests	(496.2)	168.4	(104.6)	(1,094.2)	(1,128.3)
Income taxes	(246.1)	(327.1)	(277.9)	(46.5)	14.7
Minority interests	(166.9)	(331.5)	(257.7)		
Net income (loss)	(909.2)	(490.2)	(640.2)	(1,140.7)	(1,113.6)
Net income (loss) per shares	(1.3728)	(0.00042)	(0.00055)	(0.00097)	(0.000243)
Dividends declared per thousand preferred shares (R$)					
Dividends declared per thousand common Shares (R$)					
U.S. GAAP					
Net operating revenue	9,454.5	10,019.7	7,886.5	4,575.0	3,619.6
Operating income	714.5	1,165.4	951.4	328.8	198.0
Net financial expenses	(913.6)	(985.8)	(345.2)	(1,149.6)	(743.5)
Equity in losses of unconsolidated subsidiaries				(759.1)	(733.8)
Net non-operating income (expenses)	(15.0)	(7.2)	(7.0)	9.8	(0.4)
Extraordinary item, net of tax					(12.7)
Income (loss) before income taxes, minority interests and extraordinary item	(214.1)	172.4	599.2	(1,570.1)	(1,288.9)
Income taxes and minority interest	(382.7)	(673.1)	(698.0)	74.4	97.5
Extraordinary item, net of tax					(12.7)
Net income (loss)	(596.8)	(500.7)	(98.8)	(1,495.7)	(1,204.1)
Basic and diluted net income (loss) per shares common(2)	(2.56)	(3.06)	(0.60)	(15.58)	(18.80)
Weighted average common shares outstanding(2)	232,737,408	163,753,546	163,753,546	163,753,546	64,055,598
Weighted average preferred shares outstanding(2)	410,109,272	304,960,195	304,960,195	178,807,226	119,291,510

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	Year ended December 31, 2005	2004	2003
	(in millions of *reais*)		
Cash Flow Data:			
Cash flows from operating activities	1,469.8	1,307.3	1,459.7
Cash flows from investing activities	(1,718.2)	(2,291.4)	(1,643.3)
Cash flows from financing activities	(76.8)	1,006.1	1,324.6

	As of December 31, 2005	2004	2003	2002	2001
	(in millions of *reais*, except for per share data)				
Balance Sheet Data:					
Brazilian Corporate Law Method					
Property, plant and equipment, net	5,993.4	5,603.0	5,240.8	4,770.7	3,695.8
Total assets	13,786.7	14,139.4	13,624.7	9,654.4	6,872.2
Loans and financing	5,193.0	4,963.2	6,289.2	4,460.8	2,580.1
Shareholders equity	4,015.2	2,907.4	3,393.2	4,010.0	2,742.6
Capital Stock	6,670.2	4,373.7	4,373.7	4,373.7	1,873.3
Number of shares as adjusted to reflect changes in capital	662,325	1,171,784,352	1,171,784,352	1,171,784,352	458,367,772
U.S. GAAP					
Property, plant and equipment, net	6,075.3	5,649.7	4,738.3	2,794.5	2,978.0
Total assets	14,469.3	14,226.3	13,546.5	10,202.0	7,218.3
Total liabilities	9,252.1	8,518.3	9,213.7	6,894.7	4,787.4
Shareholders equity	4,138.9	2,735.6	3,232.0	3,307.3	2,430.9
Capital stock	6,670.2	4,373.7	4,373.7	4,373.7	1,873.3
Number of shares as adjusted to reflect changes in capital	662,325	468,714	468,714	468,714	183,347

(1) Interest on shareholder s equity is includes as part of the dividends and presented net of taxes.

(2) As a result of the corporate restructuring completed on January 2000, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit on the amortization of intangibles related to our concession that was transferred through the Merger. The numbers of issuable shares, which are determined on the basis of estimates using the Company s share price at the date of the balance sheet, are considered dilutive and are included on the basis of purposes of calculating diluted earnings per share for the year ended December 31, 2001, 2002 , 2003, 2004 and 2005. The potentially diluted shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from the computation for all periods presented as their effect would have been anti-dilutive. As described in Note i to the Company s financial statements, for the year ended December 31, 2005, the Company adopted Emerging Issues Task Force EITF No. 03-6, Participating Securities and the Two-class Method under FASB Statement No. 128. Since preferred shareholders have a liquidation preference over common shareholders, net losses are not allocated to preferred shareholders. Prior period earnings per share amounts presented for comparative purposes were restated to conform to the current year presentation. Additionally, loss per share and share amounts for all periods retroactively reflect the effect of the reverse stock split described in Note i to the Company s financial statements.

Exchange Rates

Before March 14, 2005, there were two principal foreign exchange markets in Brazil:

the commercial rate exchange market; and

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the floating rate exchange market.

Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. The floating market rate generally applied to transactions to which the commercial market rate did not apply. Prior to February 1999, the exchange rate in each market was established independently, resulting in different rates during some periods. Since February 1, 1999, the Central Bank placed the commercial rate exchange market and the floating rate exchange market under identical operational limits, and financial institutions operating in the commercial market were authorized to unify their positions in the two different markets, which led to a convergence in the pricing and liquidity of both markets and a reduction in the difference between their respective rates.

With the enactment of Resolution No. 3,265 dated March 4, 2005 by the National Monetary Council both markets were consolidated into one single foreign exchange market, effective as of March 14, 2005. All foreign exchange transactions are now carried out in this single consolidated market, through institutions authorized to operate in such market.

Foreign exchange rates continue to be freely negotiated, but may be influenced by Central Bank intervention. From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the real against the U.S. dollar. In January 1999, the Central Bank allowed the real/U.S. dollar exchange rate to float freely. Since then, the real/U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the real float freely or will intervene in the exchange rate market through a currency band system or otherwise, or that the exchange market will not be volatile as a result of political instability or other factors. In light of these factors, we cannot predict that the real will not depreciate or appreciate in value in relation to the U.S. dollar substantially in the future. In addition, exchange rate fluctuations may also affect our financial condition. For more information on these risks, see Risk Factors Risks Relating to Brazil.

The following tables set forth the commercial selling rate, expressed in *reais* per U.S. dollar (R$/US$) for the periods indicated, as reported by the Central Bank.

	Exchange Rate of R$ per US$			
	Low	**High**	**Average(1)**	**Year-End**
Year ended December 31,				
2001	1.936	2.801	2.352	2.320
2002	2.271	3.955	2.931	3.533
2003	2.822	3.662	3.071	2.889
2004	2.654	3.205	2.917	2.654
2005	2.163	2.762	2.434	2.341

Source: Central Bank of Brazil, PTAX.

(1) Represents the average of the exchange rates (PTAX) on the last day of each month during the relevant period.

	Exchange Rate of R$ per US$	
	Low	**High**
Month Ended		
October 31, 2005	2.234	2.289
November 30, 2005	2.163	2.252
December 31, 2005	2.180	2.374
January 31, 2006	2.212	2.346
February 28, 2006	2.118	2.222
March 31, 2006	2.107	2.224

Source: Central Bank of Brazil, PTAX.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this annual report. The risks described below are not the only ones we face. Our business, results of operations or financial condition could be harmed if any of these risks materializes and, as a result, the trading price of the ADSs could decline.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on our business, operations and the market price of our preferred shares and our ADSs.

In the past, the Brazilian government has intervened in the Brazilian economy and occasionally made drastic changes in policy. The Brazilian government s actions to control inflation and affect other policies have often involved wage and price controls, currency devaluations, capital controls, and limits on imports, among other things.

Our business, financial condition, results of operations and the market price of our preferred shares and ADSs may be adversely affected by changes in government policies, as well as general economic factors, including:

- currency fluctuations;
- exchange control policies;
- internal economic growth;
- inflation;
- price instability;
- energy policy;
- interest rates;
- liquidity of domestic capital and lending markets;

- tax policies (including reforms currently under discussion in the Brazilian Congress); and

- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty as to future government policies may contribute to an increase in the volatility of the Brazilian securities markets and securities issued abroad by Brazilian companies. The Brazilian economy grew 2.3% in 2005, 4.9% in 2004 and 0.5% in 2003. Due to the limited economic growth in recent years, it is not certain whether the current economic policy will prevail. We cannot predict Brazil s monetary, tax, social security and other policies, nor if such policies will cause an adverse impact to the economy and to our business and results of operations or the market price of our preferred shares and ADSs.

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Tax reforms may affect our prices.

The Brazilian government has proposed tax reforms that are currently being considered by the Brazilian Congress. If we experience a higher tax burden as a result of the tax reform, we may have to pass the cost of that tax increase to our customers. This increase may have a material negative impact on the dividends paid by our subsidiaries to us and on our revenues and operating results.

Political instability may have an adverse impact on the Brazilian economy.

Political crises in Brazil in the past have affected the trust of investors and the public in general, as well as the development of the economy. Political crises may have an adverse impact on the Brazilian economy, our business, financial condition and results of operations and the market price of our preferred shares and ADSs.

Inflation and certain government measures to curb inflation may have adverse effects on the Brazilian economy, the Brazilian securities market and/or our business and operations.

Brazil has historically experienced extremely high rates of inflation. Inflation and certain of the Brazilian government s measures taken in the attempt to curb inflation have had significant negative effects on the Brazilian economy. Since 1994, Brazil s inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. In 2005, the general price index, or the IGP-DI (the *lndice Geral de Preços Disponibilidade Interna*), an inflation index developed by the *Fundação Getúlio Vargas*, a private Brazilian foundation, reflected inflation of 1.22%, compared to 12.13% in 2004 and 7.7% in 2003.

Future measures taken by the Brazilian government may have an adverse impact on the Brazilian economy, our business, financial condition and results of operation, or on the market price of our preferred shares and ADSs. If Brazil experiences significant inflation, we may be unable to increase service rates to our customers in amounts that are sufficient to cover our increasing operating costs, and our business may be adversely affected. In addition, high inflation generally leads to higher domestic interest rates and, as a result, the cost of servicing our *real*-denominated debt may increase. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could adversely affect our ability to refinance our indebtedness in those markets.

Fluctuations in the value of the* real *against the value of the U.S. dollar may adversely affect our ability to pay U.S. dollar-denominated or U.S. dollar-linked obligations and could lower the market value of our preferred shares and ADSs.

The Brazilian currency has been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the real depreciated by 15.7% and 34.3% against the U.S. dollar in 2001 and 2002, respectively. In 2003 and 2004, the real appreciated against the U.S. dollar by 22.3% and 8.8%, respectively, and in 2005 the real appreciated by 11.8% against the U.S. dollar.

Devaluation of the real relative to the U.S. dollar could create additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. The sharp depreciation of the real in relation to the U.S. dollar may generate inflation and governmental measures to fight possible inflationary outbreaks, including the increase in interest rates. On the other hand, appreciation of the real against the U.S. dollar may lead to a deterioration of the country s current account and the balance of payments, as well as dampen export-driven growth. Devaluations of the real would

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reduce the U.S. dollar value of distributions and dividends on our preferred shares and ADSs and may also reduce the market value of such securities. Any such macroeconomic effects could adversely affect our net operating revenues and our overall financial performance.

Devaluation of the real relative to the U.S. dollar may increase the cost of our indebtedness in foreign currency. It would also reduce the U.S. dollar value of our revenues and distribution of dividends. As of December 31, 2005, TCP had R$5.2 billion in consolidated total debt, of which approximately 62% was denominated in foreign currencies, such as the U.S. dollar, Japanese yen and the UMBNDES (an index of several currencies predominantly influenced by the U.S. dollar). Significant costs relating to our network infrastructure and handset costs are payable or linked to payment by us in U.S. dollars. At the same time, while our foreign currency debt obligations were covered by derivative contracts as of December 31, 2005 and we may derive income from these and other derivative transactions, all of our operating revenues are generated in *reais*. To the extent that the value of the real decreases relative to the U.S. dollar, Japanese yen and UMBNDES, our debt becomes more expensive to service and it becomes more costly for us to acquire the technology and the goods that are necessary to operate our business. Although we currently hedge our foreign currency debt, we may decide to change our hedging policy in the future. In addition, when the value of the real increases relative to the U.S. dollar, Japanese yen and UMBNDES, the decrease in the cost of servicing our debt is offset by our losses on the derivatives associated with it. See Item 3. Key Information Exchange Rates for more information on exchange rates.

Fluctuations in interest rates may have an adverse effect on our business and on the market price of our preferred shares and ADSs.

Between February and July 2002, the Central Bank reduced the basic interest rate from 19% to 18%. Between October 2002 and February 2003, the Central Bank increased the basic interest rate by 8.5 percentage points, to 26.5%. In June 2003 the Central Bank started again reducing the basic interest rate. In 2004 and in the first months of 2005 the Central Bank increased the basic interest rate. As of December 31, 2005, the basic interest rate is 18%. As of December 31, 2005, TCP s total indebtedness was R$5,193.0 million. Approximately 38% of such indebtedness is denominated in *reais* and mostly pegged to the CDI (*Certificado Depositário Interbancário*) rate, a Brazilian interbank rate. All other debt was denominated in foreign currencies and fully covered by derivative contracts so that the final cost of the debt and the associated derivative is the CDI rate. As a consequence, an increase in the CDI interest rates and inflation indexes would increase the costs of our debt, which could adversely affect the market s perception of the value of our shares.

Brazilian government exchange control policies could adversely affect our ability to make payments on foreign currency-denominated debt.

The purchase and sale of foreign currency in Brazil is subject to governmental control. In the past, the Central Bank has centralized certain payments of principal on external obligations. Many factors could cause the Brazilian government to institute a more restrictive exchange control policy, including, without limitation, the extent of Brazilian foreign currency reserves, the availability of sufficient foreign exchange, the size of Brazil s debt service burden relative to the economy as a whole, Brazil s policy towards the International Monetary Fund, or IMF, and political constraints to which Brazil may be subject. A more restrictive policy could affect the ability of Brazilian debtors (including us) to make payments outside of Brazil to meet foreign currency-denominated obligations.

Deterioration in economic and market conditions in other countries, especially emerging market countries, may adversely affect the Brazilian economy and our business.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging market countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or conditions in other

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emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil. Any adverse economic developments in other emerging markets may adversely affect investor confidence in securities issued by Brazilian companies, including our preferred shares and ADSs, causing the market price and liquidity of those securities to suffer.

Risks Relating to the Brazilian Telecommunications Industry and Us

Extensive government regulation of the telecommunications industry may limit our flexibility in responding to market conditions, competition and changes in our cost structure.

Our business is subject to extensive government regulation, including any changes that may occur during the period of our concession to provide telecommunication services. ANATEL, which is the main telecommunications industry regulator in Brazil, regulates, among other things:

- industry policies and regulations;
- licensing;
- tariffs;
- competition;
- telecommunications resource allocation;
- service standards;
- technical standards;
- interconnection and settlement arrangements; and
- universal service obligations.

This extensive regulation and the conditions imposed by our authorization to provide telecommunication services may limit our flexibility in responding to market conditions, competition and changes in our cost structure.

Our results have been affected, and may continue to be affected in the medium and long term, as a result of the new SMP rules.

In 2002, ANATEL changed the Personal Mobile Service (*Serviço Móvel Pessoal*), or SMP, regime (first enacted in December 2000), encouraging companies operating under the Mobile Cellular Service (*Serviço Móvel Celular*), or SMC, regime to migrate to the SMP regime.

Under the SMP regime, we no longer receive payments from our customers for outbound long-distance traffic but receive payments for the use of our network in accordance with a network usage payment plan. However, the interconnection fees that we receive from long-distance operators may not compensate us for the revenues that we would have received from our customers for outbound long-distance traffic. Until June 30, 2004, SMP service providers were able to opt to establish a price cap or freely negotiate their interconnection charges. Now, free negotiation is the rule, subject to ANATEL regulations relating to the traffic capacity and interconnection infrastructure that must be made available to requesting parties. In 2005, ANATEL began permitting free negotiations for mobile interconnection, or VU-M, fees and by July, 2005, local-fixed concessionaires and mobile operators had reached a provisional agreement in respect of VU-M fees for local calls, or VC-1 (the agreement guaranteed a 4.5% increase in fees). ANATEL approved that provisional agreement and in March, 2006, approved another provisional agreement for VU-M fees for long-distance calls, or VC-2 and VC-3. ANATEL is currently studying a new model to determine values for interconnection fees and is expected to have completed such model by mid-2007. This model is expected to set fees according to respective costs of current market participants.

In addition, under the SMP regime, an SMP operator used to pay for the use of another SMP operator s network in the same registration area only if the traffic carried from the first operator to the second exceeded 55% of the total traffic exchanged between them. In that case, only those calls that surpassed the 55% level were subject to payment for network usage. As a result, if the traffic we terminate for other SMP operators exceeds the traffic they terminate for our company, our revenues and results of operations may be affected. In the twelve months ended December, 31, 2005, for example, this regulatory change contributed to a decrease in our revenues from interconnection fees charged to other companies. See Item 5 Operating and Financial Review and Prospects.

At various times, there have been discussions about reversing the billing system described in the previous paragraph or, alternatively, taking it further by eliminating all payments for network usage between SMP networks. This rule remains in effect under Resolution nº 408, published by ANATEL in 2005, which sets forth the partial bill and keep rule in respect of payments for interconnection among SMP networks, although a fully developed cost-model has not yet been developed or implemented. We cannot predict whether the current regulatory regime will remain in place or whether any future regulatory change could have an adverse effect on our results of operations.

If the inflation adjustment index now applied to our prices is changed, the new index may not be adequate.

The Brazilian government currently uses the General Price Index, or the IGP-DI (the *Índice Geral de Preços Disponibilidade Interna*), an inflation index developed by the *Fundação Getúlio Vargas*, a private Brazilian economic organization, in connection with the prices charged in the telecommunications industry. Beginning in 2007, we expect the Brazilian government to begin to regulate the telecommunications industry based on a model that would analyze companies costs based on a hypothetical company s costs and other factors. In connection with the introduction of this model, the Brazilian government may use a different inflation adjustment mechanism, the IST index (*Índice de Serviços de Telecomunicações*), beginning in 2008. If this new inflation adjustment mechanism, or any other mechanism chosen by the Brazilian government in the future, does not adequately reflect the true effect of inflation on our prices, our results of operations could be adversely affected.

ANATEL s proposal regarding the consolidation of prices could have an adverse effect on our results.

ANATEL has proposed new regulations on interconnection rules, some of which could have an adverse effect on our results. The public consultation period on ANATEL s proposal ended on October 18, 2004, but final regulations have not been promulgated except for the new General Regulation of Interconnection (*Regulamento Geral de Interconexão* Resolution number 410/2005, or RGI), the Regulation of Separation and Allocation of Costs (Resolution number 396/2005) and the Regulation of Industrial Exploration of Dedicated Lines (*Exploração Industrial de Linha Dedicada* Resolution number 402/2005, or EILD). The proposals that may adversely affect our results are (1) a proposal that two SMP providers controlled by the same economic group receive only one instead of two interconnection charges (VU-M) for calls originated and terminated in their networks, (2) a proposal for new negotiation rules for VU-M prices by which ANATEL would have a role in determining prices rather than the current, free-market negotiation of prices and (3) a proposal for VU-M price unification among SMP providers of the same economic group having significant market power according to criteria still to be defined. If these regulations take effect, they would have an adverse effect on our results of operations because (1) our interconnection charges would drop significantly, thereby reducing our revenues, (2) ANATEL may allow more favorable prices for economic groups without significant market power and (3) the prices we charge in some regions in which we operate are higher than those in some other regions, and consolidation of those prices, competitive pressures and other factors would reduce our average prices and thereby reduce our revenues.

ANATEL s Public Consultation number 642 of 2005 relates to alterations in the regulation of SMP. While counter arguments thereunder must have been sent to ANATEL before January 16, 2006, none have been made. In the proposed regulation, ANATEL notes areas of vital importance for mobile business, such as the necessity

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for retail stores in the cities within an operator s coverage areas, increases in the validity periods of prepaid cards; an extension of the period for blocking use by insolvent customers and a limiting of the period of time after which customers may leave service plans. We have presented our arguments to ANATEL against the proposals that may have adverse effects on our business. If these new regulations take effect, they may have adverse effects on our revenues and results of operations.

We face substantial competition that may reduce our market share and harm our financial performance.

There is substantial competition in the telecommunications industry. We not only compete with companies that provide SMP service and trunking but also with companies that provide fixed-line telecommunications and Internet access services, due to the trend towards the convergence and substitution of SMP services for these other services.

We expect competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products and services. Our ability to compete successfully will depend on our marketing techniques and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by our competitors. If we do not keep pace with technological advances, or if we fail to respond timely to changes in competitive factors in our industry, we could continue to lose market share and could suffer a decline in our revenue. Competition from other SMP communications service providers in the regions in which we operate has also affected, and may continue to affect, our financial results by causing, among other things, a decrease in our customer growth rate, decreases in prices and increases in selling expenses.

These factors have already contributed to a negative effect on our market share and our results of operations and could have a material adverse effect on our business and results of operations in the future. As a result of competitive pressures, for example, our market share decreased from 51.4% as of December 31, 2004 to 45.2% as of December 31, 2005, and our market share of net additions to our customer base decreased from 40.0% for the twelve months ended December 31, 2004 to 24.8% for the twelve months ended December 31, 2005. In addition, our net additions of customers decreased 40.6% from the twelve months ended December 31, 2004 to the twelve months ended December 31, 2005. Similarly, the market share of TCO, TLE, TSD and Celular CRT in their authorized areas declined in the same period, and the market share of net additions to the customer base of these companies declined significantly. Net additions of customers of each of these companies also declined significantly from the twelve months ended December 31, 2004 to the twelve months ended December 31, 2005. In addition, our selling expenses for the twelve months ended December 31, 2005 grew at a significantly higher rate than our net operating revenue compared to the twelve months ended December 31, 2004, and similar trends existed at each of TCO, TLE, TSD and Celular CRT.

Recently, there has been consolidation in the Brazilian telecommunications market, and we believe this trend may continue. Consolidation may result in increased competitive pressures within our market. We may be unable to respond adequately to pricing pressures resulting from consolidation, which would adversely affect our business, financial condition and results of operations.

In September 2004, Brasil Telecom, the fixed-line incumbent in nine states in Brazil and the Federal District (ANATEL s Region II), launched GSM operations in those states. Brasil Telecom s authorization area overlaps with TCO s in the Brazilian Federal District and in the states of Acre, Goias, Mato Grosso, Mato Grosso do Sul, Rondonia and Tocantins, overlaps with all of Global Telecom s authorization area (the states of Paraná and Santa Catarina) and overlaps with Celular CRT s authorization area. The entrance of Brasil Telecom into these markets will increase the competition that Global Telecom, Celular CRT and TCO face in some states. Brasil Telecom has announced that its marketing strategy will be the convergence between its fixed and mobile services, and it is the only company in those states that offers both fixed and cellular services. The entrance of Brasil Telecom into the cellular markets in these states will increase competition for Global Telecom, Celular CRT and TCO and could have a material adverse effect on our results of operations.

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Our results of operations have been negatively affected by a decrease in our customer growth and could also be affected if our rate of customer turnover increases.

Our rate of acquisition of new customers has declined significantly, primarily due to competition and increased market penetration. For example, our net additions of customers decreased 40.6% from the twelve months ended December 31, 2004 to the twelve months ended December 31, 2005 due to a decrease in the rate of addition of new prepaid customers to 1,530,000 new prepaid customers in the twelve months ended December 31, 2005, compared to 2,982,000 new prepaid customers in the comparable period of the prior year. This decrease in the rate of new additions of customers has negatively affected our results of operations and could continue to do so in the future. In addition, if our rate of customer turnover were to increase significantly, our results of operations and or competitive position could be adversely affected. Several factors in addition to competitive pressures could influence our rate of acquisition of new customers and our rate of customer turnover, including limited network coverage, lack of sufficient reliability of our services and economic conditions in Brazil.

The industry in which we conduct our business is subject to rapid technological changes and these changes could have a material adverse effect on our ability to provide competitive services.

The telecommunications industry is subject to rapid and significant technological changes. Our success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will be further developed.

The advent of new products and technologies could have a variety of consequences for us. These new products and technologies may reduce the price of our services by providing lower-cost alternatives, or they may be superior to, and render obsolete, the products and services we offer and the technologies we use, requiring investment in new technology. The cost of upgrading our products and technology in order to continue to compete effectively could be significant, and our ability to fund the upgrading may depend on our ability to obtain additional financing.

Certain debt agreements of our subsidiaries, including TCO and its subsidiaries, contain financial covenants, and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows.

Certain existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios and tests. After the Merger, the ability of our subsidiaries to meet these financial ratios and tests can be affected by events beyond our and their control, and we cannot assure you that they will meet those tests. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these agreements. The existing debt agreements also contain cross-default provisions, so that in certain circumstances, if an event of default occurs under any subsidiary s agreement, the lenders could elect to declare all amounts outstanding under all of such subsidiary s agreements to be immediately due and payable, enforce their interests against collateral pledged under the agreements and, in certain circumstances, restrict their ability to make additional borrowings.

Our controlling shareholders have a great deal of influence over our business.

As of December 31, 2005, *PT Móveis SGPS, S.A.* and *Telefónica Móviles, S.A.*, our principal shareholders, owned, directly and indirectly, approximately 92.5% of our common shares and 66.1% of our total capital. PT Móveis SGPS, S.A. is 100% controlled by *Portugal Telecom*, SGPS, S.A. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders. Due to their share ownership, our principal shareholders have the power to control us and our subsidiaries, including the power to elect our directors and officers and determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations and the timing and payment of our dividends.

In addition, *Portugal Telecom* and *Telefónica Móviles* share their participation in us equally. Any disagreement or dispute between them may have an impact on the decision-making capabilities of our management.

Brasilcel and its subsidiaries hold 89.03% of our common shares after the Merger (accounting for that 16,010 preferred shares of dissenting TCP shareholders, totaling R$104,385.20, were purchased from the dissenters and will be sold back into the market, at our discretion, but in all cases within 6 months, as required by Brazilian law.

Improper use of our network can adversely affect our costs and results of operations.

We incur costs associated with the unauthorized use of our wireless networks, including administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs, capacity costs and payments to other carriers for non-billable fraudulent roaming. See Item 4.A Information on the Company Fraud Detection and Prevention of this annual report for more information regarding the improper use of our network and our efforts to prevent it. Improper use of our network can also increase our selling expenses if we have to increase our provision for doubtful accounts to reflect amounts we do not believe we can collect for improperly made calls. Our subsidiary TCO, for example, recently increased its provision for doubtful accounts more than TLE, TSD and Celular CRT because of previously undetected improper use of TCO s network. Any unexpected increase in the improper use of our network in the future could materially adversely affect our costs and results of operations.

The cellular industry, including us, may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.

Media and other reports have suggested that radio frequency emissions from wireless handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using wireless handsets. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. We cannot assure you that further medical research and studies will refute a link between the radio frequency emissions of wireless handsets and base stations and these health concerns. Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including us, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business, financial condition and results of operation. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services. On July 2, 2002, ANATEL published Resolution No. 303 that limits emission and exposure for fields with frequencies between 9 kHz and 300 GHz. In addition, the Brazilian government is developing specific legislation for the deployment of radio frequency transmission stations that will supersede the existing state and municipal laws. The new laws may create additional transmission regulations which, in turn, could have an adverse effect on our business.

Our investment in Global Telecom S.A. has adversely affected, and is expected to continue to adversely affect, our financial performance.

Our investment in Global Telecom S.A. presents operational and financial risks. Global Telecom started operations in 1999, and its principal competitor in its concession area has been in operation for a longer period of time and has a larger market share in that area. Global Telecom has had substantial net losses of R$270.6 million in 2005 (R$180.3 million in 2004 and R$436.0 million in 2003) resulting in significant part from indebtedness and increased expenses in connection with the rapid expansion of its network infrastructure and upgrading its marketing and commercial capabilities.

Our investment in Global Telecom S.A. is expected to continue to have a material effect on our financial condition and results because of the indebtedness we incurred to make the investment. Global Telecom (which began operations in December 1998) has reported net losses for each of the three years ended December 31, 2005.

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We face risks associated with litigation.

We and our subsidiaries are party to a number of lawsuits and other proceedings. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs to us. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business. See Item 8 Financial Information Consolidated Statements and Other Financial Information Legal Matters

In addition, pursuant to the Merger, we assumed the liabilities of TLE, TSD and Celular CRT, including the risks they face from litigation. TCP will assume the liabilities of TLE, TSD and Celular CRT and will assume all the risks relating to those liabilities. See Risks Relating to the Merger, below.

We may be required to record impairment charges relating to goodwill and long-lived assets in the future for purposes of U.S. GAAP.

For U.S. GAAP purposes, we are required to test our goodwill for impairment at least annually. The difference between the book value of a reporting unit under U.S. GAAP and its market value may indicate that an impairment exists. This impairment test is described in Note 36.d to our unaudited condensed consolidated interim financial statements included in this prospectus. TCP, in particular, has substantial goodwill, including goodwill relating to TCO with a carrying value of R$717.7 million as of December 31, 2005. We expect that we may be required to record impairment charges relating to our goodwill in future periods, and this would have an adverse effect on our results of operations.

In addition, we are required to record impairment charges on long-lived assets, including property, plant and equipment and finite-lived intangible assets (including concessions) if the carrying value of those assets exceeds their fair market value for purposes of U.S. GAAP. This annual impairment test is also described in Note 36.d to our unaudited condensed consolidated interim financial statements included in this prospectus. When we performed our last impairment test, our evaluation of our ability to recover the carrying value of our long-lived assets was based upon projections of future operations that assumed a higher level of revenues and gross margin percentages than we have historically achieved. We may not be successful in achieving these improvements in our revenues and gross margin percentages due to the competitive environment, changes in technology or other factors. If we are unable to achieve these improvements, we may be required to record impairment charges relating to our long-lived assets in future periods, and this could have an adverse effect on our operations.

Risks Relating to Our Securities

Holders of our preferred shares or ADSs may not receive any dividends.

According to Brazilian Corporate Law and our bylaws, we must generally pay dividends to all shareholders of at least 25% of our annual net income, as determined and adjusted under the Brazilian Corporate Law. These adjustments to net income for purposes of calculating the basis for dividends include allocations to various reserves that effectively reduce the amount available for the payment of dividends. However, we were unable to pay minimum dividends in for the fiscal years ended December 31, 2001, 2002, 2003, 2004 and 2005 because we had net losses. In addition, according to Brazilian Corporate Law, we need not pay dividends to our shareholders in any particular fiscal year if our board of directors determines that such distributions would be inadvisable in light of our financial condition. See Part Six: Shareholder Rights Description of TCP Capital Stock Allocations of Profits.

Since we are a holding company, our income consists of distributions from our subsidiaries in the form of dividends or other advances and payments. We do not generate our own operating revenues, and we are dependent on dividends and other advances and payments for our cash flow, including to make any dividend payments or to make payments on our indebtedness.

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Exchange controls and restrictions on remittances abroad may adversely affect holders of our ADSs.

Brazilian law provides that whenever there is a significant imbalance in Brazil s balance of payments or a significant possibility that such imbalance will exist, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investment in Brazil (as it did for approximately six months in 1989 and early 1990) and on the conversion of Brazilian currency into foreign currencies. These restrictions could hinder or prevent the Brazilian custodian of the preferred shares underlying the ADSs or holders who have exchanged the ADSs for the underlying preferred shares from converting dividends, distributions or the proceeds from any sale of such shares into U.S. dollars and remitting such U.S. dollars abroad. In such an event, the Brazilian custodian for our preferred shares will hold the *reais* that it cannot convert for the account of holders of the ADSs who have not been paid. Neither the custodian nor the depositary will be required to invest the *reais* or be liable for any interest.

Holders of our ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are organized under the laws of Brazil, and most of our directors and executive officers and our independent public accountants reside or are based in Brazil. Substantially all of our assets and those of these other persons are located in Brazil. As a result, it may not be possible for holders of the ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by us or our directors or executive officers than would shareholders of a U.S. corporation.

Actual or anticipated sales of a substantial number of our ADSs could decrease the market prices of our ADSs.

Sales of a substantial number of our preferred shares could negatively affect the market prices of our preferred shares and the ADSs. If, in the future, existing or future holders of preferred shares make substantial sales of shares, the market price of our preferred shares and, by extension, the ADSs may decrease significantly. As a result, holders of the ADSs may not be able to sell the ADSs at or above the price they paid for them.

The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of our ADSs.

Investments in securities, such as the preferred shares or the ADSs, of issuers from emerging market countries, including Brazil, involves a higher degree of risk than investing in securities of issuers from more developed countries.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. These features may substantially limit the ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The São Paulo Stock Exchange had a market capitalization of US$482.1 billion as of December 31, 2005, and an average monthly trading volume of approximately US$13.8 billion for the first twelve months of 2005.

In comparison, the NYSE had a domestic market capitalization of US$13.3 trillion (excluding funds and non-U.S. companies) as of December 31, 2005. A liquid and active market may never develop for our common shares, preferred shares or the ADSs, and as result the ability of holders to sell at the desired price or time may be significantly hindered.

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Holders of our ADSs may face difficulties in protecting their interests because we are subject to different corporate rules and regulations as a Brazilian company and our shareholders may have fewer and less well-defined rights.

Holders of the ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our by-laws and the Brazilian Corporate Law. Our corporate affairs are governed by our bylaws and the Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, or elsewhere outside Brazil. The rights under Brazilian Corporate Law of a holder of our common shares or preferred shares to protect its interests with respect to actions by us or our directors or executive officers may be fewer and less well-defined than under the laws of those other jurisdictions. In addition, holders of the ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our bylaws and the Brazilian Corporate Law.

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of our common shares, preferred shares or ADSs at a potential disadvantage. In addition, the disclosure required of public companies in Brazil may be less complete or informative than that required of public companies in the United States or in certain other countries.

Our preferred shares and our ADSs generally do not have voting rights.

In accordance with Brazilian Corporate Law and our by-laws, holders of our preferred shares, and therefore of our ADSs, are not entitled to vote at meetings of our shareholders, except in limited circumstances. In accordance with Brazilian Corporate Law and our bylaws, holders of preferred shares will have full voting rights in the event that we do not pay minimum dividends to those shareholders for three consecutive fiscal years, and those shareholders will retain those voting rights until we again pay minimum dividends.

Because we did not pay minimum dividends for the years ended December 31, 2001, 2002, 2003, 2004 and 2005, the holders of preferred shares have been able to exercise voting rights since the general shareholders meeting held in March 2004. However, once we again pay minimum dividends, those voting rights will cease. See Item 10.B. Additional Information Memorandum and Articles of Association.

Holders of our ADSs may find it difficult to exercise even their limited voting rights at our shareholders meetings.

Holders of our ADSs may exercise the limited voting rights with respect to our preferred shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders meetings in certain newspapers in Brazil. To the extent that holders of our preferred shares are entitled to vote at a shareholders meeting, they will be able to exercise their voting rights by attending the meeting in person or voting by proxy. By contrast, holders of the ADSs will receive notice of a shareholders meeting by mail from the depositary following our notice to the depositary requesting the depositary to do so, and they may not receive voting materials in time to instruct the depositary to vote the preferred shares underlying their ADSs. To exercise their voting rights, ADS holders must instruct the depositary on a timely basis. If voting instructions for all or part of the ADSs are not received timely by the depositary, the depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of the ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of the ADSs may not be able to exercise voting rights, and will have no recourse if the preferred shares underlying their ADSs are not voted as requested.

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You might be unable to exercise preemptive rights with respect to our preferred shares unless there is a current registration statement in effect that covers those rights or unless an exemption from registration applies.

You will not be able to exercise the preemptive rights relating to our preferred shares underlying any ADSs you own unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights, or unless an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary, or, if the preemptive rights cannot be sold, they will lapse and you will not receive any value for them. For more information on the exercise of your rights see Item 10. Additional Information.

An exchange of ADSs for preferred shares risks loss of certain foreign currency remittance and Brazilian tax advantages.

The ADSs benefit from the certificate of foreign capital registration, which permits The Bank of New York, as depositary, to convert dividends and other distributions with respect to preferred shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for preferred shares will then be entitled to rely on the depositary s certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit non-Brazilian currency abroad unless they obtain their own certificate of foreign capital registration, or unless they qualify under Resolution 2,689 of the Central Bank of Brazil, dated January 26, 2000, known as Resolution 2,689 issued by BACEN, which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration.

If holders of ADSs do not qualify under Resolution 2,689, they will generally be subject to less favorable tax treatment on distributions with respect to our preferred shares. There can be no assurance that the depositary s certificate of registration or any certificate of foreign capital registration obtained by holders of ADSs will not be affected by future legislative or regulatory changes, or that additional Brazilian law restrictions applicable to their investment in the ADSs may not be imposed in the future.

Holders of our ADSs could be subject to Brazilian income tax on capital gains from sales of ADSs.

Brazilian Law No. 10,833, dated December 29, 2003, provides that gains on the disposition of assets located in Brazil by non-residents of Brazil, whether to other non-residents or to Brazilian residents, will be subject to Brazilian taxation. The common shares and preferred shares are expected to be treated as assets located in Brazil for purposes of the law, and gains on the disposition of common shares and preferred shares, even by non-residents of Brazil, are expected to be subject to Brazilian taxation. In addition, the ADSs may be treated as assets located in Brazil for purposes of the law, and therefore gains on the disposition of ADSs by non-residents of Brazil may also be subject to Brazilian taxation. Although the holders of ADSs outside Brazil may have grounds to assert that Law No. 10,833 does not apply to sales or other dispositions of ADSs, it is not possible to predict whether that understanding will ultimately prevail in the courts of Brazil, given the general and unclear scope of Law No. 10,833 and the absence of judicial court rulings in respect thereto. See Item 5. The Merger Material Tax Considerations Brazilian Tax Considerations.

Risks Relating to the Merger

As a result of the Merger, TCP assumed the liabilities of TLE, TSD and Celular CRT and assumed all the risks relating to those liabilities.

You should be aware that because TCP assumed the liabilities of TLE, TSD and Celular CRT as a result of the Merger of these targets with TCP, any existing known or unknown financial obligation, legal liability or other contingent liability or risk of each of TLE, TSD and Celular CRT became the responsibility of TCP. These

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liabilities could cause TCP to be required to make payments, incur charges or take other actions that could adversely affect TCP s financial position and results of operations and the price of TCP s securities. As a result, you should carefully consider the information about each of TLE, TSD and Celular CRT that is included in the sections on risk factors in Amendment No. 1 to the Form F-4 of TCP filed with the Commission on January 24, 2006 and in the Form 20-Fs of TLE and TSD filed with the Commission on April 15, 2005.

We are more leveraged than any of TCO, TSD or Celular CRT, and a significant portion of our cash flow will have to be used to service our obligations.

As of December 31, 2005, TCP, TCO, TSD and Celular CRT had R$5,652.8 million of consolidated total debt on a pro forma basis, only R$108.9 million of which was attributable to TCO, R$317.0 million to TLE, R$0 million to TSD and R$142.7 million to Celular CRT. We are subject to the risks normally associated with significant amounts of debt, which could have important consequences to you. Our indebtedness could, among other things:

- require us to use a substantial portion of our cash flow from operations to pay our obligations, thereby reducing the availability of our cash flow to fund working capital, operations, capital expenditures, dividend payments, strategic acquisitions, expansion of our operations and other business activities;
- increase our vulnerability to general adverse economic and industry conditions;
- limit, along with financial and other restrictive covenants in our debt instruments, our ability to borrow additional funds or dispose of assets; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

We may also need to refinance all or a portion of our debt on or before maturity, and we may not be able to do this on commercially reasonable terms or at all.

There is no clear guidance under Brazilian law regarding the income tax consequences to investors resulting from the Merger.

There is no specific legislation, nor administrative or judicial precedent regarding the income tax consequences to investors resulting from the Merger. Based on the opinion of its external tax advisors, TCP believes that there are reasonable legal grounds to sustain that the receipt (resulting from the Merger) by a non-Brazilian holder of ADSs or by a U.S. person of common or preferred shares that are registered as foreign portfolio investments under Resolution 2,689/00 of the National Monetary Council or are registered as foreign direct investments under Law No. 4,131/62 would not be subject to income tax pursuant to Brazilian tax law. However, this position may not prevail, in which case TCP would be liable to the Brazilian tax authorities for withholding and collecting the taxable capital gains of shareholders resident abroad. While such shareholders would not be directly liable to Brazilian tax authorities, TCP would be entitled to reimbursements from them. Alternatively there could be a withholding tax of 15% on interest paid on shareholders equity that shareholders will receive pursuant to the Merger.

The capital gain arising from the disposition of TCP s shares registered as a direct foreign investment in Brazil could be calculated based on the historical amount in Brazilian currency of the investment, rather than the amount in foreign currency registered with the Central Bank of Brazil.

There is uncertainty concerning the currency to be used for the purposes of calculating the cost of acquisition of shares registered with the Central Bank of Brazil as a direct investment. Even though a recent precedent of a Brazilian administrative court supports the view that capital gains should be based on the positive difference between the cost of acquisition of the shares in the applicable foreign currency and the value of disposition of those shares in the same foreign currency, tax authorities are not bound by such precedents.

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ITEM 4. INFORMATION ON THE COMPANY

A. Our History and Development

General

We are incorporated under the laws of the Federative Republic of Brazil under the name Vivo Participações S.A., known as Vivo (and prior to the Merger, under the name Telesp Celular Participações S.A., or TCP). We have the legal status of *a sociedade por ações*, or a stock corporation, operating under the Brazilian Corporate Law. Our principal executive offices are located at Avenida Doutor Chucri Zaidan, 860, 04583-110, São Paulo, SP, Brazil. Our telephone number is +55 11 5105-1182, our facsimile number is +55 11 5105-2247, and our website is *www.vivo.com.br*. The information on our website is not part of this Form 20-F. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

According to market share data published by ANATEL, we are a leading provider of cellular telecommunications services in Brazil through our subsidiaries Telesp Celular S.A., or Telesp Celular; Global Telecom S.A. or Global Telecom; Tele Centro Oeste S.A., or TCO; and the subsidiaries of Celular CRT Participações S.A., or Celular CRT; Tele Leste Celular Participações S.A., or TLE; and Tele Sudeste Celular Participações S.A., or TSD;

The following chart shows our corporate structure as of December 31, 2005:

Telebrás and the Privatization

TCP was created as a result of a restructuring of Telebrás in 1998. Before 1972, there were more than 900 telecommunications companies operating throughout Brazil. Between 1972 and 1975, Telebrás and its operating subsidiaries known as the predecessor companies, and collectively known as the Telebrás System, were created, acquiring almost all of the telecommunications companies in Brazil, and creating a near monopoly over the provision of public telecommunications services in Brazil.

In 1995, the federal government began a comprehensive reform of Brazil s telecommunications regulatory system. In July 1997, Brazil s national congress adopted the General Telecommunications Law, which provided for the establishment of a new regulatory framework, the introduction of competition and the privatization of the Telebrás System. In January 1998, in preparation for the restructuring and privatization of the Telebrás System, the cellular telecommunications operations of the Telebrás System were spun off into separate companies. In May 1998, the Telebrás System was restructured to form, in addition to Telebrás, twelve new holding companies. Virtually all of the predecessor companies assets and liabilities were allocated to the new holding companies, which we refer to as the new holding companies. TCP was one of the new holding companies. TCP was allocated all of the share capital held by Telebrás in Telesp Celular, one of the cellular operating companies that had provided cellular telecommunications service in the state of São Paulo since 1993. The Brazilian government s common shares of Telesp s capital stock were purchased by the Portugal Telecom group.

Global Telecom

Global Telecom is a B Band cellular concessionaire in the states of Paraná and Santa Catarina. Global Telecom began commercial operations in December 1998. In February 2001, we acquired an 81.61% indirect economic interest in Global Telecom for R$902 million. On December 27, 2002, we acquired the remaining shares of Global Telecom for R$290.3 million.

Brasilcel

TCP is controlled by Brasilcel N.V., or Brasilcel, with headquarters in the Netherlands, a joint venture between Portugal Telecom and Telefónica Móviles. Through the Vivo Companies, this joint venture controls 34.5% of the total market in Brazil, according to ANATEL, with 29.8 million customers as of December 31, 2005, according to market share data published by ANATEL. Its operations cover an area of approximately 136 million inhabitants, or 73.7% of the Brazilian population, and approximately 83.3% of its GDP. Portugal Telecom and Telefónica Móviles are managing the joint venture on an equal basis.

In December 2002, Portugal Telecom and Telefónica transferred to Brasilcel all of their direct and indirect interests in the following companies:

TCP

TCP controls an A Band operator in the state of São Paulo, Global Telecom, a B Band operator in the states of Paraná and Santa Catarina and Tele Centro Oeste Celular Participações S.A.

Tele Leste Celular Participações S.A. (TLE)

TLE, which controls A Band operations in the states of Bahia and Sergipe, was one of the operating subsidiaries of Telebrás that was spun off as an individual company in July 1998. It received all the capital stock held by Telebrás in the subsidiaries that provided cellular telecommunication services in the states of Bahia and Sergipe, namely, Telebahia Celular and Telergipe Celular.

TLE was purchased by a consortium formed by Iberdrola Investimentos Sociedade Unipessoal Ltda., an investment company controlled by Iberdrola S.A. and Telefónica Internacional S.A., a subsidiary of Telefónica. On May 17, 1999, Iberoleste Participações S.A. purchased 3.07% of Telebahia s capital stock and 6.54% of Telergipe s capital stock in a tender offer. In February 2000, Telefónica and

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Iberdrola transferred their shares to Iberoleste, maintaining their same percentage interest in the consortium. On April 5, 2001, Telefónica purchased all the capital stock directly and indirectly held by the Iberdrola Group in TLE.

Tele Sudeste Celular Participações S.A. (TSD)

TSD, which controls A Band operators in the states of Rio de Janeiro and Espírito Santo, was one of the operating subsidiaries of Telebrás that was spun off as an individual company in July 1998. TSD received all the capital stock held by Telebrás in the subsidiaries that provided cellular telecommunication services in the States of Rio de Janeiro and Espírito Santo, namely, Telerj Celular and Telest Celular, respectively.

TSD was purchased by a consortium of Telefónica Internacional S.A., Iberdrola Investimentos Sociedade Unipessoal Ltda., NTT Mobile Communications Network, Inc. and Itochu Corporation. In May 2000, Telefónica acquired 67.51% of TSD s capital stock through an exchange offer. On April 5, 2001, Telefónica purchased from the Iberdrola group, with the authorization of ANATEL, 7% of the capital stock of Sudestecel Participações S.A., a holding company that controlled TSD.

Celular CRT Participações S.A. (Celular CRT)

Celular CRT controls an A Band operator in the state of Rio Grande do Sul. Cellular telecommunications services were first offered in the state of Rio Grande do Sul in December 1992 by a business unit of Celular CRT Companhia Riograndense de Telecomunicações. The fixed and cellular operations of Celular CRT were split on June 25, 1998, and the cellular operations were spun off as Celular CRT. On May 4, 1999, Celular CRT obtained its registration as a publicly-held company with the CVM for the trading of its shares on the over-the-counter market organized by Sociedade Operadora do Mercado de Ativos SOMA, starting on May 17, 1999. On September 8, 1999, Celular CRT registered with the Extremo Sul Stock Exchange and BOVESPA, pursuant to the applicable laws. The main shareholder of Celular CRT was the state of Rio Grande do Sul.

In 1996, the state of Rio Grande do Sul sold part of its stake in Celular CRT to Telefónica. In 1998, the remaining stake of the state of Rio Grande do Sul was sold to Telefónica. In 1999, Portugal Telecom subscribed a share capital increase of Celular CRT.

Acquisition of TCO

On April 25, 2003, TCP acquired 64.03%, of the outstanding voting capital stock of TCO from Fixcel S.A. for approximately R$1,505.6 million, corresponding to R$19.48719845 per each lot of 1,000 shares acquired. TCO is an A Band operator providing cellular telecommunications services in the Federal District of Brazil, as well as in the Brazilian states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins. The agreement also included the acquisition of TCO s B Band subsidiary NBT, which provides cellular telecommunications service in the Brazilian states of Amapá, Amazonas, Maranhão, Pará and Roraima. On May 25, 2003, in compliance with Brazilian legislation, we launched a tender offer for the common shares of TCO not owned by us. The acceptance period ended on November 18, 2003. As a result of the shares tendered, we acquired 74.2% of the outstanding available common shares at the price of R$16.73 per 1,000 common shares. The total purchase price for the new shares amounted to R$538.8 million. At December 31, 2003 we held 90.73% of TCO s ordinary shares, representing a 29.31% interest in TCO, excluding treasury stocks. We also announced the intention to launch an exchange offer for the remaining shares of TCO through which we would have become TCO s sole shareholder. This would have been followed by a merger of TCO into TCP. After the launch of the exchange offer, the CVM raised questions on to its compliance with Brazilian law. Although TCP and TCO believed, and believe, that the exchange offer complied with applicable law, TCP and TCO decided to terminate the exchange offer in January, 2004. See the sections TCO s Corporate Restructuring and Merger of the Vivo Companies, below, for more information on developments to TCO since we acquired it.

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Introduction of the Vivo Brand

In April 2003, Brasilcel launched the brand name Vivo , under which TCP, TCO, TLE, TSD and Celular CRT have been operating together ever since. The creation of the Vivo brand constituted a consolidation of the commercial models throughout the entire country into a common commercial strategy and replaced the different brands under which the different companies offered their services in their respective states. The commercial strategy of Vivo is to increase its customer base as well as revenues by retaining customers as well as maintaining their distribution channels. The launching of the Vivo brand was accompanied by loyalty programs and other measures designed to contribute to the success of the commercial strategy. Guided by a common management team, Vivo designs marketing, promotional and other initiatives common to all the companies and then tailors those activities to the particular markets of those companies.

TCO s Corporate Restructuring

On June 30, 2004, the management of TCP and TCO approved the corporate restructuring of TCO and its subsidiaries Telegoiás Celular S.A., Telems Celular S.A., Telemat Celular S.A., Teleacre Celular S.A. and Teleron Celular S.A. The reasons for restructuring were: (i) to effectuate an improvement in TCO s and its subsidiaries cash flow, resulting from the transfer of TCP s R$511 million tax benefit to TCO, generated by the amortization of a goodwill in the amount of R$1,503 million, originally paid upon the acquisition of TCO and its subsidiaries by TCP in 2003 and (ii) to effectuate a simplification of the corporate structure of TCO s subsidiaries, improving TCO s capitalization, benefiting the minority shareholders of TCO s subsidiaries.

VTO Voluntary Public Tender Offer

On October 8, 2004, Telesp Celular Participações concluded its public tender offer (VTO) for up to 84,252,534,000 preferred shares of TCO by TCP. The number of preferred shares tendered in the VTO exceeded the maximum number to be acquired by TCP. Due to a pro-rata allocation, TCP purchased 0.5547 preferred shares for each preferred share tendered by a TCP holder. After the VTO, on January 7, 2005, the number of TCO shares held by TCP represents 32.76% of the total preferred shares and 50.65% of the total capital stock of TCO. Also under the VTO, Avista Participações Ltda., a subsidiary of Brasilcel, purchased:

- common shares of TLE representing 10.0% of TLE s total common shares and preferred shares of TLE representing 29.51% of TLE s total preferred shares;

- common shares of TSD representing 3.27% of TSD s total common shares and preferred shares of TSD representing 4.89% of TSD s total preferred shares.

- common shares of Celular CRT representing 4.48% of Celular CRT s total common shares and preferred shares of Celular CRT representing 23.44% of Celular CRT s total preferred shares.

Rights Offering

On November 8, 2004, TCP announced a capital increase of up to R$2,053,895,871.47, upon private subscription, with an issuance of 410,779,174,294 new shares, of which 143,513,066,618 are common shares and 267,266,107,676 are preferred shares, for the issuance price of five *reais* (R$5.00) per lot of one thousand shares, for both types of shares of the Company, identical in every aspect to those currently existing.

The capital increase was carried out in three subscription stages, with due regard to preemptive rights, and ended by an auction of the remaining shares held on January 4, 2005, which was confirmed by the Board of Directors at a meeting held on January 7, 2005, whereby the capital stock was increased to R$6,427,557,341.20, represented by 1,582,563,526,803 shares, of which 552,896,931,154 are common shares and 1,029,666,595,649 are preferred shares. Following the rights offering, Brasilcel held 94.9% of our common shares, 50.0% of our preferred shares, and 65.7% of our total capital stock.

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Brasilcel s Capital Increases of TLE, TSD, and Celular CRT

In July 2005, Brasilcel and its affiliates acquired additional voting capital stock of TLE, TSD and Celular CRT in respective capital increases. As a result of those transactions, Brasilcel held:

68.72% of TLE s common shares, 40.95% of TLE s preferred shares and 50.67% of TLE s total capital stock;

92.01% of TSD s common shares, 90.27% of TSD s preferred shares and 91.03% of TSD s total capital stock; and

90.57% of Celular CRT s common shares, 51.47% of Celular CRT s preferred shares and 68.77% of Celular CRT s total capital stock (excluding treasury shares).

Merger of the Vivo Companies

In February 2006, shareholders of the Vivo Companies approved their consolidation with one another through a Brazilian law procedure (the Merger) whereby TCO became a wholly-owned subsidiary of TCP pursuant to a merger of shares (*incorporação de ações*) of TCO and a merger of companies (*incorporação de empresas*) of TLE, TSD and Celular CRT with and into TCP, with TCP as the surviving company. Holders of common shares, preferred shares or (where applicable) ADSs of TCO, TLE, TSD and Celular CRT received common shares, preferred shares or ADSs, respectively, of TCP upon approval of the Merger by the requisite percentage of the voting shareholders of TCP, on one hand, and of TCO, TLE, TSD and Celular CRT, as applicable, on the other hand. Upon the completion of the Merger, TCP was renamed Vivo Participações S.A. and has become the holding company of TCO and of the remaining subsidiaries of TLE, TSD and Celular CRT.

The boards of executive officers (*Conselhos de Administração*) of each of the constituent companies to the Merger completed their respective approval processes for the Merger by December 4, 2005 and their respective shareholders approved the transaction as of February 22, 2006. The reasons for the Merger were to align the interests of the shareholders of TCP, TCO, and TLE, TSD and Celular CRT, which were previously under common control; to improve the liquidity of the resultant securities; to simplify the shareholding and organizational structure of the Vivo companies and expand its shareholder base; and to take advantage of important synergies among the companies, which were already operating under the common Vivo brand.

Pursuant to the Merger, Brasilcel and its subsidiaries now hold 89.03% of TCP s common shares. Under the Protocol of Merger of Shares and Merger of Companies and Instrument of Justification, governing the Merger, TCP underwent a capital increase in the amount of R$2,631,136,636.01 as a result of the Merger, from R$6,670,152,498.26 to R$9,301,289,134.27. The agreements also provided that Celular CRT s preferred shares held in treasury be transferred to TCP in connection with the Merger. At a TCP Shareholders Meeting held on February 22, 2006, TCP reduced its capital in the amount of R$3,147,782,181.54, from R$6,670,152,498.26 to R$3,522,370,316.72, as approved by management and the shareholders and in accordance with Brazilian Corporate Law, which permits reductions in capital up to the amount of accumulated losses, which, in turn, allows a more accurate valuation of the company and opens a possibility for eventual future distributions of dividends. The total capital of TCP is R$6,153,506,952.73 due to an increase in the amount of R$2,631,136,636.01 as a result of the Merger. For more information on the Merger, see the Protocol of Merger of Shares and Merger of Companies and Instrument of Justification among Telesp Celular Participações S.A. and Tele Centro Oeste Celular Participações S.A., Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. dated December 4, 2005, which is included as an exhibit to this report.

CVM regulations permit the acquiror of a publicly held company to capitalize the tax benefits arising from the amortization of goodwill generated in the acquisition of that company, so long as preemptive rights are extended to the other shareholders of the publicly held company in connection with the capital increase. At the time of the Merger, any rights previously held by TCP, in connection with its existing investment in TCO, or by certain

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controlling shareholders, in the case of TSD, TLE and Celular CRT, to capitalize credits of such companies will remain in effect. As a result, upon the Merger TCP retained its prior rights to capitalize its credits in TCO and such controlling shareholders acquired the right to use their credits in future capital increases of TCP.

Capital Expenditures

The primary focus of our capital expenditure program has been, and continues to be, the improvement of the capacity of the services we currently offer and the provision of new services as well as the development of information systems.

The following tables set forth our total capital expenditures for the companies and periods indicated:

	Year ended December 31,		
	2005	2004	2003
	(in millions of *reais*)		
TCP			
Switching equipment	343.2	380.1	167.2
Transmission equipment	589.8	450.7	232.8
Information technology	386.2	285.8	157.4
Others(1)	238.5	275.4	151.2
Total capital expenditures	1,557.7	1,392.0	708.6

	Year ended December 31,		
	2005	2004	2003
	(in millions of *reais*)		
Telesp Celular			
Switching equipment	216.2	175.9	131.0
Transmission equipment	313.2	172.8	122.3
Information Technology	360.4	251.5	101.9
Others(1)	120.9	158.9	100.5
Total capital expenditures	1,010.7	759.1	455.7

	Year ended December 31,		
	2005	2004	2003
	(in millions of *reais*)		
Global Telecom			
Switching equipment	25.4	47.5	10.3
Transmission equipment	126.9	124.5	45.5
Information Technology	6.4	15.7	16.8
Others(1)	30.9	26.8	18.8
Total capital expenditures	189.6	214.5	91.4

	Year ended December 31, 2005		
	(in millions of *reais*)		
TCO			
Switching equipment	101.6	156.7	25.9
Transmission equipment	149.7	153.4	65.0
Information Technology	19.4	18.6	38.7
Others(1)	86.7	89.7	31.9

Total capital expenditures	357.4	418.4	161.5

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	Year ended December 31,		
	2005	2004	2003
	(in millions of *reais*)		
TLE			
Switching equipment	29.9	39.2	12.2
Transmission equipment	56.8	27.7	16.5
Information technology	5.6	6.1	8.5
Others(1)	35.9	30.5	34.0
Total capital expenditures	128.2	103.5	71.2

	Year ended December 31,		
	2005	2004	2003
	(in millions of *reais*)		
TSD			
Switching equipment	90.2	90.6	59.3
Transmission equipment	112.8	64.8	161.0
Information technology	11.6		3.4
Others(1)	82.5	85.9	31.2
Total capital expenditures	297.1	241.3	254.9

	Year ended December 31,		
	2005	2004	2003
	(in millions of *reais*)		
Celular CRT			
Switching equipment	59.7	72.2	23.1
Transmission equipment	119.3	84.5	101.9
Information technology	4.2		
Others(1)	56.2	47.6	17.7
Total capital expenditures	239.4	204.3	142.7

(1) Consisting primarily of free handset rentals, network construction, furniture and fixtures, office equipment and store layouts.

Our combined capital expenditure estimate for 2006 is approximately R$1.1 billion including investments in network expansion, introduction of products and services that aim at maximizing the use of cellular telephony, besides seeking the constant improvement of the quality of services provided to our customers.

We intend to fund these capital expenditures mostly with cash generated from operations. See Item 5B. Liquidity and Capital Resources.

B. Business Overview

According to data regarding market share published by ANATEL, we are among the leading providers of cellular telecommunications services in Brazil, with the help of our subsidiaries, Telesp Celular, Global Telecom and TCO, as well as that of the operations we acquired through the Merger from TLE, TSD and Celular CRT. Telesp Celular is the leading cellular operator in the state of São Paulo and in Brazil. Global Telecom is a cellular operator in the states of Paraná and Santa Catarina. TCO is the leading cellular operator in the states of Acre, Amazonas, Amapá, Distrito Federal, Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Rondônia, Roraima and Tocantins. As of the Merger TLE was a leading provider of cellular telecommunications services in the states of Bahia and Sergipe through its subsidiaries Telebahia Celular S.A., or Telebahia, and Telergipe Celular, or Telergipe, which have become part of TCP pursuant to the Merger. As of the Merger, TSD was a

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leading provider of cellular telecommunications services in the states of Rio de Janeiro and Espirito Santo through its subsidiaries Telerj Celular S.A., or Telerj, and Telest Celular S.A., or Telest, which have become part of TCP pursuant to the Merger. Immediately prior to the Merger, Celular CRT Participações S.A. was a leading provider of cellular telecommunications services in the state of Rio Grande do Sul through its subsidiary Celular CRT S.A. part of TCP pursuant to the Merger.

Telesp Celular uses a frequency range known as A Band that covers 100% of the municipalities in its authorized areas in the state of São Paulo. At December 31, 2005, Telesp Celular had 10,476 million cellular lines in service, which represented a 13.5% increase from December 31, 2004, and a market share of approximately 49.2% in São Paulo.

Global Telecom uses a frequency range known as B Band that covers 59.0% of the municipalities in the states of Paraná and Santa Catarina and 92.3% of the population of Paraná and Santa Catarina. At December 31, 2005, Global Telecom had 2,910 million cellular lines in service, which represented a 12.8% net increase from December 31, 2004, and a market share of approximately 34.5% in those states.

Tele Centro Oeste Celular is the leading cellular operator, by number of customers, in its authorization area. TCO uses a frequency range known as A Band that covers 53.0% of the municipalities in the states of Acre, Distrito Federal, Goiás, Mato Grosso, Mato Grosso do Sul, Rondônia and Tocantins, and 90.6% of the population of those states. Tele Centro Oeste Celular, through its subsidiary, NBT, also uses a frequency range known as B Band that covers 33.3% of the municipalities in the states of Amazonas, Amapá, Maranhão, Pará and Roraima, and 70.6% of the population of those states. At December 31, 2005, Tele Centro Oeste Celular had 6,815 million cellular lines in service, which represented a 17.1% net increase from December 31, 2004, and a market share of approximately 45.5% in those states.

Through the operations acquired from TLE, we provide mobile telecommunications services in TLE s areas on the A Band frequency range in an area with more than 15.9 million people, representing 8.6% of Brazil s population, and encompassing 16 metropolitan areas with populations in excess of 100,000 people. These operations cover 33.1% of the municipalities and 70.3% of the population in this area. As of December 31, 2005, TLE and its subsidiaries had 1.5 million cellular lines in service and a market share of approximately 31.8% in its authorized areas, estimated based on the total number of cellular lines in service in those areas as published by ANATEL.

Through the operations acquired from TSD, we provide mobile telecommunications services in TSD s areas on the A Band frequency range in an area covering approximately 89,774 square kilometers, representing approximately 1.1% of Brazil s territory. This area is home to more than 18.9 million people, representing 10.2% of Brazil s population. These operations cover 100% of the municipalities in this area. As of December 31, 2005, TSD and its subsidiaries had 4.7 million cellular lines in service and a market share of approximately 42.6% in its authorized areas, estimated based on the total number of cellular lines in service in those areas as published by ANATEL.

Through the operations acquired from Celular CRT, we provide mobile telecommunications services on the A Band frequency range in an area with more than 10.9 million people, representing 5.9% of Brazil s population. As of December 31, 2005, Celular CRT had 3.4 million cellular lines in service and a market share of approximately 48.3% in its authorized area, estimated based on the total number of cellular lines in service in that area as published by ANATEL.

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Our Operations

The following tables set forth information of Telesp Celular, Global Telecom, TCO, TLE, TSD and Celular CRT cellular telecommunications base, coverage and related matters at the dates and for the years indicated.

Telesp Celular

	Year ended December 31,		
	2005	2004	2003
Cellular lines in service at year-end (in thousands)	10,476	9,232	7,495
Contract customers	1,779	1,603	1,475
Prepaid customers	8,696	7,629	6,020
Growth in cellular lines in service during year	13.5%	23.2%	23.7%
Churn(1)	18.7%	18.9%	22.7%
Estimated population of concession areas (in millions)(2)	39.7	39.1	38.0
Estimated covered population (in millions)(3)	39.7	38.5	37.4
Percentage of population covered(4)	100%	98.5%	98.5%
Penetration at year-end(5)	53.0%	42.7%	30.3%
Percentage of municipalities covered	100%	79.6%	76.7%
Average monthly minutes of use per customer(6)	81	93.0	107
Market share(7)	49.2%	55.2%	63.4%

Global Telecom

	Year ended December 31,		
	2005	2004	2003
Cellular lines in service at year-end (in thousands)	2,910	2,579	1,691
Contract customers	366	298	280
Prepaid customers	2,543	2,281	1,411
Growth in cellular lines in service during year	12.8%	52.5%	43.7%
Churn(1)	20.0%	13.7%	19.4%
Estimated population of concession areas (in millions)(2)	16.1	15.9	15.5
Estimated covered population (in millions)(3)	14.9	14.0	12.8
Percentage of population covered(4)	92.3	88.0%	82.8%
Penetration at year-end(5)	51.4%	39.8%	24.0%
Percentage of municipalities covered	59.0%	42.3%	28.6%
Average monthly minutes of use per customer(6)	58	74	94
Market share(7)	34.5%	41.3%	45.0%

TCO

	Year ended December 31,		
	2005	2004	2003
Cellular lines in service at year-end (in thousands)	6,815	5,820	4,112
Contract customers	970	945	950
Prepaid customers	5,845	4,875	3,162
Growth in cellular lines in service during year	17.1%	41.6%	34.1%
Churn(1)	19.2%	23.4%	25.1%
Estimated population of concession areas (in millions)(2)	33.8	33.0	31.8
Estimated covered population (in millions)(3)	27.1	25.5	24.2
Percentage of population covered(4)	80.4	77.2%	76.3%
Penetration at year-end(5)	44.0%	34.8%	23.3%

Percentage of municipalities covered	44.7%	41.3%	49.2%
Average monthly minutes of use per customer(6)	73	87	103
Market share(7)	45.5%	51.3%	55.6%

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TLE

	Year ended December 31,		
	2005	**2004**	**2003**
Cellular lines in service at year-end	1,477	1,320	1,126
Contract customers	323	292	291
Prepaid customers	1,154	1,028	835
Customer growth during the year	11.9%	17.3%	16.4%
Churn(1)	33.6%	35.3%	34.3%
Estimated population of region at year-end (million)(2)	15.8	15.6	15.3
Estimated covered population at year-end (million)(3)	11.1	10.8	10.4
Percentage of population covered at year-end(4)	70.3	69.3%	68.1%
Penetration at year-end(5)	29.2%	0.2%	13.4%
Percentage of municipalities covered	33.1	31.3%	30.6%
Average monthly minutes of use per customer(6)	89	89	106
Estimated market share(7)	31.8%	42.3%	55.2%

TSD

	Year ended December 31,		
	2005	**2004**	**2003**
Cellular lines in service at year-end	4,740	4,376	3,709
Contract customers	1,476	1,259	1,156
Prepaid customers	3,264	3,117	2,552
Customer growth during the year	8.3%	18.0%	7.4%
Churn(1)	29.5%	31.3%	30.6%
Estimated population of Region at year-end (millions)(2)	18.8	18.6	18.1
Estimated covered population at year-end (millions)(3)	18.8	18.6	18.1
Percentage of population of Region covered at year-end(4)	100%	100%	100%
Penetration at year-end(5)	58.8%	49.1%	41.0%
Percentage of municipalities covered	100%	100%	100%
Average monthly minutes of use per customer(6)	92	99	112
Market share(7)	42.6%	47.7%	49.6%

Celular CRT

	Year ended December 31,		
	2005	**2004**	**2003**
Cellular lines in service at year-end (in thousands)	3,387	3,215	2,523
Contract customers	829	788	687
Prepaid customers	2,558	2,427	1,836
Growth in cellular lines in service during year	5.3%	27.4%	21.4%
Churn(1)	21.7%	19.5%	21.7%
Estimated population of concession areas (in millions)(2)	10.5	10.3	10.1
Estimated covered population (in millions)(3)	10.0	9.9	9.7
Percentage of population covered(4)	96.0%	95.6	95.5
Penetration at year-end(5)	65.6%	55.2%	40.7%
Percentage of municipalities covered	69.9	55.2	40.0
Average monthly minutes of use per customer(6)	68	80	81
Market share(7)	48.3%	54.8%	60.0%

(1) Churn is the number of customers that leave us during the year, calculated as a percentage of the simple average of customers at the beginning and the end of the year.

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(2) Projections based on estimates of the *Instituto Brasileiro de Geografia e Estatística* IBGE.
(3) Number of people within our Region that can access our cellular telecommunications signal.
(4) Percentage of the population in our Region that can access our cellular telecommunications signal.
(5) Number of cellular lines in service in our Region, including those of our competitors, divided by the population of our Region.
(6) Average monthly minutes of use per lines in service is the total minutes of calls received and made by our customers divided by the average of lines in service during the relevant year (includes roaming in and excludes roaming out).
(7) Estimate based on all lines in service in our Region at year end.

Our Services

We provide cellular telecommunications services using both digital and analog technologies. Our network provides both CDMA digital service and AMPS, or analog services. We provide cellular telecommunications services in the frequency of 850 MHz using digital technology CDMA/TDMA and analog technology AMPS. All our services are provided in the frequency of 850 MHz.

We provide voice and ancillary services, including voicemail and voicemail notification, call forwarding, three-way calling, caller identification, short messaging, limitation on the number of used minutes, cellular chat room, and data service such as wireless application protocol service through which clients can access WAP sites and portals. We offer direct access to the Internet through either PCMCIA cards (Personal Computer Memory Card International Association, an organization consisting of some 500 companies that has developed standardized small, credit card-sized devices, called PC Cards) designed to connect compatible PDA s (Personal Digital Assistant, a handheld device that combines computing, telephone/fax, Internet and networking features) and laptops or cellular phones by cable connection that offers to corporate subscribers secure access to their intranet and office resources. We also offer some new services like Multimedia Message Service, MExE (Mobile Execution Environment) that enable the handset to download applications and execute them at the mobile and a user interface with icons at the handset to identify the main services, such as Voice Mail, Downloads and text messaging (SMS) for a friendlier access to our services.

In addition, in 2004 we launched:

Vivo Direto service this service allows users to make individual and group calls;

Vivo Encontra (LBS) a group of location based services, including Vivo Localiza, using GPSOne as a location technology a service that allows users to locate each other;

Vivo Aqui Perto a city-guide application;

Vivo Agenda (Synchronized Agenda) this service allows users to back up their contact lists and to recover any information lost in case of robbery or loss;

Vivo em Ação an alternative-reality game that encourages the client to use different ancillary services;

Vivo Avisa makes the client aware of calls missed when their phone is unavailable;

Olho Vivo (video monitoring) (launched in March 2004), this was the first monitoring application in Brazil. Subscribers can see real-time images of a webcam connected to a PC through their personal mobiles at a rate of 4 frames per second;

TV no Celular (video streaming) (launched in October 2004), this was the first application of streaming video in Brazil. Subscribers can see real-time audio and television images through their personal mobiles.

In addition, in 2005 we launched:

Vivo Play 3G multimedia service that leverages the 3rd generation CDMA EV-DO network to provide users with downloading and streaming of video content as cartoons, news, soccer, adult

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content, weather forecasts and sitcoms exclusively created for mobile phones. The service also offers users the option to download full track music to mobile phones;

Vivo Zap 3G a wireless broadband Internet access for computers and handhelds using PCMCIA cards or cell phones that achieves high data transfer rate up to 2.4 Mbps using the 3rd generation CDMA EV-DO network and giving users an experience similar to that achieved with wired broadband connections and with the advantage of mobility;

Smart Mail a Wireless PIM solution that enables real time access for corporate e-mail service or personal e-mail accounts through a PDA providing on-line e-mail notifications and calendar or contact synchronization;

World Phone using the same handset and number the World Phone allows Vivo subscribers to automatically roam over CDMA/GSM networks in more than 170 countries;

Instant Messenger the most popular Internet instant messenger application (MSN) available for Vivo handsets through WAP; and

MMS Interoperability interoperability agreements established with six main mobile operators in Brazil allowing Vivo subscribers to send and receive multimedia messages from other operators subscribers.

We offer roaming services through agreements with local cellular service providers throughout Brazil and other countries that allow our subscribers to make and receive calls while out of our concession areas. We also provide reciprocal roaming services to subscribers of those cellular service providers while they are in our concession areas.

Our Region

Telesp Celular provides mobile telecommunications services on the A Band frequency range in the State of São Paulo, covering approximately 248,209 square kilometers, representing approximately 2.9% of Brazil s territory, or our Region. This area includes more than 40.7 million people, representing 22.0% of Brazil s population, and 63 municipalities with populations in excess of 100,000, including the City of São Paulo, Brazil s largest city, with more than ten million people.

Global Telecom provides mobile telecommunications services on a frequency range known as B Band in its authorization area, which encompasses the states of Paraná and Santa Catarina. This area is composed of 294,661 square kilometers, representing approximately 3.5% of Brazil s territory, with a population of approximately 16.2 million people, representing 8.8% of Brazil s population, and 22 municipalities with populations in excess of 100,000 people.

TCO provides mobile telecommunications services in Brazil s Federal District and in 11 Brazilian states: Federal District, Acre, Goiás, Tocantins, Mato Grosso, Mato Grosso do Sul and Rondônia as a frequency range known as A Band and Pará, Amazonas, Amapá, Roraima, and Maranhão on a frequency range known as B Band. Both frequencies comprising altogether 5.8 million Km2 and 33.8 million people, representing 68.0% of Brazil s territory and 18.4% of Brazil s population, and 34 municipalities with populations in excess of 100,000 people.

As of the Merger, TLE provided, and since the Merger, Vivo provides, mobile telecommunications services on the A Band frequency range in the states of Bahia and Sergipe through its subsidiaries Telebahia Celular S.A., or Telebahia, and Telergipe Celular, or Telergipe. TLE s area encompassed 16 metropolitan areas with populations in excess of 100,000 people, with more than 15.9 million people total and representing 8.6% of Brazil s population. TLE covers 33.1% of the municipalities and 70.3% of the population in this area, which is composed of 86,603 square kilometers, representing approximately 6.9% of Brazil s territory.

As of the Merger, TSD provided and since the Merger, Vivo provides, mobile telecommunications services on the A Band frequency range in the states of Rio de Janeiro and Espirito Santo, over an area covering approximately 89,774 square kilometers, representing approximately 1.1% of Brazil s territory. This area is home to more than 18.9 million people, representing 10.2% of Brazil s population. TSD covers 100% of the municipalities and 96.8% of the population in this area.

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As of the Merger, Celular CRT provided, and since the Merger, TCP provides, mobile telecommunications services on the A Band frequency range in the state of Rio Grande do Sul through its subsidiary Celular CRT S.A. Celular CRT s area covers 281,749 square kilometers, representing approximately 3.3% of Brazil s territory and more than 10.9 million people, representing 5.9% of Brazil s population.

The following tables set forth population, gross domestic product (GDP), and per capita income statistics for each state in our Regions at the dates and for the years indicated:

Telesp Celular

t December 31, 2005		Year ended Decem	
ulation usands)(1)	Percent of Brazil s population(1)	GDP (in thousands of *reais*)(2)(3)	Percent Brazil GDP(3
40,704	22.0		

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

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

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

Prevent stockholders from calling special meetings; and

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

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

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

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

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

We will remain an emerging growth company until the earliest of (i) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds $700 million as of December 31 of that fiscal year, (ii) the end of the fiscal year in which we have total annual gross revenue of $1 billion or more during such fiscal year, (iii) the date on which we issue more than $1 billion in non-convertible debt in a three-year period or (iv) June 30, 2019.

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

The attraction and retention of qualified employees and key personnel;

Our ability to protect and defend our intellectual property;

Costs associated with defending intellectual property infringement and other claims;

Unexpected events in the market for our solutions;

Future regulatory, judicial and legislative changes in our industry;

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

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

You should read these factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements represent our management's beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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INDUSTRY AND MARKET DATA

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

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USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $19.8 million, based upon an assumed offering price of $28.41 per share, which was the closing price of our common stock as reported on the NASDAQ Global Select Market on December 5, 2014, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

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

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

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

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MARKET PRICE OF COMMON STOCK

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

	High	Low
Third Quarter Fiscal 2014 (from March 19, 2014)	$ 31.00	$ 22.11
Fourth Quarter Fiscal 2014	$ 25.07	$ 15.24
First Quarter Fiscal 2015	$ 26.00	$ 18.50
Second Quarter Fiscal 2015 (through December 5, 2014)	$ 30.41	$ 19.20

On December 5, 2014, the last reported sale price of our common stock on the NASDAQ Global Select Market was $28.41 per share. As of September 30, 2014, we had 16 holders of record of our common stock. The actual number of holders of common stock is greater than these numbers of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and nominees. The number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

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DIVIDEND POLICY

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

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CAPITALIZATION

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

On an actual basis; and

On an adjusted basis to give effect to the sale by us of 750,000 shares of common stock by us in this offering at an assumed public offering price of $28.41 per share, which was the closing price of our common stock as reported on the NASDAQ Global Select Market on December 5, 2014, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

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

	As of September 30, 2014	
	Actual	As Adjusted
	(dollars in thousands)	
Cash and cash equivalents	$ 72,843	$ 92,655
Long-term debt, including current maturities		
Stockholders' equity (deficit):		
Preferred stock: $0.001 par value, 5,000 shares authorized and no shares outstanding, actual and as adjusted		
Common stock: $0.001 par value, 155,000 shares authorized, 49,577 shares issued and outstanding, actual; 155,000 shares authorized, 50,327 shares issued and outstanding, as adjusted	50	50
Additional paid-in capital	128,766	148,578
Accumulated deficit	(39,046)	(39,046)
Total stockholders' equity	$ 89,770	$ 109,582
Total capitalization	$ 162,613	$ 202,237

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

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

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

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

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

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth our selected consolidated financial data as of the dates and for the periods indicated. The selected consolidated statements of operations data for the fiscal years ended June 30, 2012, 2013 and 2014 and the consolidated balance sheet data as of June 30, 2013 and 2014 have been derived from the audited consolidated financial statements included elsewhere in this prospectus. Our consolidated statements of operations data for the three months ended September 30, 2013 and 2014 and the selected consolidated balance sheet data presented below as of September 30, 2014 have been derived from unaudited consolidated financial statements included elsewhere in this prospectus. The selected consolidated balance sheet data presented below as of June 30, 2012 has been derived from our audited consolidated financial statements not included in this prospectus and the selected consolidated balance sheet data presented below as of September 30, 2013 has been derived from unaudited consolidated financial statements not included in this prospectus. Historical results are not necessarily indicative of future results. This selected consolidated financial data should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus.

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

Operating income (loss)	2,768	31	(7,018)	(434)	(4,896)
Other (expense) income	(196)	(16)	163	28	49
Income (loss) before income taxes	2,572	15	(6,855)	(406)	(4,847)
Income tax (benefit) expense	884	(602)	255	(362)	28
Net income (loss)	$ 1,688	$ 617	$ (7,110)	$ (44)	$ (4,875)

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

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

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

Forward-Looking Statements

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

Overview

We are a cloud-based provider of payroll and HCM software solutions for medium-sized organizations, which we define as those having between 20 and 1,000 employees. Our comprehensive and easy-to-use solutions enable our clients to manage their workforces more effectively. As of June 30, 2014, we served approximately 8,500 clients across the U.S., which on average had over 100 employees during each of the last three fiscal years. Our solutions help drive strategic human capital decision-making and improve employee engagement by enhancing the HR, payroll and finance capabilities of our clients.

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

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

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

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

Delivering a positive service experience is an essential element of our ability to sell our solutions and retain our clients. We seek to develop deep relationships with our clients through our unified service model, which has been designed to meet the service needs of medium-sized

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organizations. We expect to continue to invest in and grow our implementation and client service organization as our client base grows.

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

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

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

Key Metrics

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

Recurring Revenue Growth

Our recurring revenue model and high annual revenue retention rates provide significant visibility into our future operating results and cash flow from operations. This visibility enables us to better manage and invest in our business. Recurring revenue, which is comprised of recurring fees and interest income on funds held for clients, increased from $52.5 million in fiscal 2012 to $72.8 million in fiscal 2013, representing a 39% year-over-year increase. Recurring revenue increased from $72.8 million in fiscal 2013 to $101.9 million in fiscal 2014, representing a 40% year-over-year increase. Recurring revenue represented 95%, 94% and 94% of total revenue in fiscal 2012, 2013, and 2014, respectively. Recurring revenue increased from $21.1 million for the three months ended September 30, 2013 to $29.5 million for the three months ended September 30, 2014, representing a 40% year-over-year increase. Recurring revenue represented 95% of total revenue for the three month periods ended September 30, 2013 and 2014.

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Client Count Growth

We believe there is a significant opportunity to grow our business by increasing our number of clients. We have increased our number of clients from approximately 5,500 as of June 30, 2012 to approximately 8,500 as of June 30, 2014, representing compound annual growth rate of approximately 24%. The table below sets forth our client count for the periods indicated, rounded to the nearest fifty.

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

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

Annual Revenue Retention Rate

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

Recurring Fees from New Clients

We calculate recurring fees from new clients as the percentage of year- to-date recurring fees from all clients on our solutions which had not been on or used any of our solutions for a full year as of the start of the current fiscal year. We believe recurring fees from new clients is an important metric to measure the expansion of our existing client base as well as the growth in our client base. For the first three months of fiscal 2014 and fiscal 2015, our recurring fees from new clients were 34% and 35%, respectively. Our recurring fees from new clients for both fiscal 2013 and 2014 were 44%.

Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA

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

Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA are not measurements of financial performance under generally accepted accounting principles in the United States, or GAAP, and you should not consider Adjusted Gross Profit as an alternative to gross profit Adjusted Recurring Gross Profit as an alternative to total recurring revenues, or Adjusted EBITDA as an alternative to net income (loss) or cash provided by operating activities, in

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each case as determined in accordance with GAAP. In addition, our definition of Adjusted Gross Profit, Adjusted Recurring Gross Profit and Adjusted EBITDA may be different than the definition utilized for similarly-titled measures used by other companies.

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

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

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

Basis of Presentation

Revenues

Recurring Fees

We derive the majority of our revenues from recurring fees attributable to our cloud-based payroll and HCM software solutions. Recurring fees for each client generally include a base fee in addition to a fee based on the number of client employees and the number of products a client uses. We also charge fees attributable to our preparation of W-2 documents and annual required filings on behalf of our clients. Over the past three years, our clients have consistently had on average over 100 employees. We derive revenue from a client based on the solutions purchased by the client, the number of client employees as well as the amount, type and timing of services provided in respect of those client employees. As such, the number of client employees on our system is not a good indicator of our financial results in any period. Recurring fees attributable to our cloud-based payroll and HCM solutions accounted for 93%, 92% and 92% of our total revenues during fiscal 2012, 2013 and 2014, respectively.

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

Interest Income on Funds Held for Clients

We earn interest income on funds held for clients. We collect funds for employee payroll payments and related taxes in advance of remittance to employees and taxing authorities. Prior to

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remittance to employees and taxing authorities, we earn interest on these funds through financial institutions with which we have automated clearing house, or ACH, arrangements.

Implementation Services and Other

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

Cost of Revenues

Cost of Recurring Revenues

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

We capitalize a portion of our costs for software developed for internal use, which are then all amortized as a cost of recurring revenues. We amortized $2.7 million, $3.1 million and $2.2 million of capitalized internal-use software costs in fiscal 2012, 2013 and 2014, respectively.

Cost of Implementation Services and Other

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

Operating Expenses

Sales and Marketing

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

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

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Research and Development

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

We capitalize a portion of our development costs related to internal-use software. The timing of our capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development expenses for each of fiscal 2012, 2013 and 2014.

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

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

General and Administrative

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

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

Other Income (Expense)

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

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Results of Operations

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

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

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

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

Comparison of Three Months Ended September 30, 2013 and 2014

Revenues

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

Recurring Fees

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

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

Interest Income on Funds Held for Clients

Interest income on funds held for clients for the three months ended September 30, 2014 was not materially different as compared to the three months ended September 30, 2013. The increase in interest income due to an increase in the amount of funds held for clients was partially offset by declining interest rates.

Implementation Services and Other

Implementation services and other revenue for the three months ended September 30, 2014 increased by $0.3 million, or 26%, to $1.6 million from $1.3 million for the three months ended September 30, 2013. Implementation services and other revenue increased primarily as a result of an increase in the number of new clients during the three months ended September 30, 2014 in comparison to the three months ended September 30, 2013.

Cost of Revenues

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

Cost of Recurring Revenues

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

Cost of Implementation Services and Other

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

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Operating Expenses

Sales and Marketing

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

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

Research and Development

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

Research and development for the three months ended September 30, 2014 increased by $2.1 million, or 106%, to $4.0 million from $2.0 million for the three months ended September 30, 2013. The increase in research and development expense was primarily as a result of $1.4 million in employee-related expenses related to 31 additional development personnel and $0.5 million of stock-based compensation expenses. The Company's emphasis is on hiring highly skilled technical personnel as well as expanding the management team in this area, resulting in higher average salaries and increased research and development expense per incremental employee for the three months ended September 30, 2014.

General and Administrative

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

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

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

Other Income (Expense)

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

*

Not Meaningful

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

Income Tax (Benefit) Expense

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

*

Not Meaningful

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

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

Revenues

	Year Ended June 30, 2012	Year Ended June 30, 2013	Year Ended June 30, 2014	Change from 2012 to 2013 $	Change from 2012 to 2013 %	Change from 2013 to 2014 $	Change from 2013 to 2014 %
Recurring fees	$ 51,211	$ 71,309	$ 100,362	$ 20,098	39%	$ 29,053	41%
Percentage of total revenues	93%	92%	92%				
Interest income on funds held for clients	$ 1,263	$ 1,459	$ 1,582	$ 196	16%	$ 123	8%
Percentage of total revenues	2%	2%	2%				

Implementation services and other	$	2,622	$	4,526	$	6,743	$	1,904	73%	$	2,217	49%
Percentage of total revenues		5%		6%		6%						

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Recurring Fees

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

Recurring fees for fiscal 2013 increased by $20.1 million, or 39%, to $71.3 million from $51.2 million for fiscal 2012. Recurring fees increased primarily as a result of the continued growth of our client base in fiscal 2013, as well as increased revenue per client. Our client count at June 30, 2013 increased by 25% to approximately 6,850 from approximately 5,500 at June 30, 2012.

Interest Income on Funds Held for Clients

Interest income on funds held for clients for fiscal 2014 increased by $0.1 million, or 8%, to $1.6 million from $1.5 million for fiscal 2013. Interest income increased primarily as a result of an increased average daily balance of funds held due to the addition of new clients to our client base partially offset by declining interest rates during fiscal 2014.

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

Implementation Services and Other

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

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

Cost of Revenues

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

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Cost of Recurring Revenues

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

Cost of recurring revenues for fiscal 2013 increased by $6.8 million, or 31%, to $28.9 million from $22.1 million for fiscal 2012. Cost of recurring revenues increased primarily as a result of the continued growth of our business, in particular $2.9 million in additional employee-related costs resulting from additional personnel to provide services to new and existing clients, $1.2 million of additional costs attributable to resellers, and $2.4 million of other processing-related fees. Recurring gross margin increased by 2% from 58% in fiscal 2012 to 60% in fiscal 2013 primarily due to a 1% reduction in amortization expense as a percentage of total recurring revenue and a 1% reduction in personnel-related and other costs as a percentage of total recurring revenue.

Cost of Implementation Services and Other

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

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

Operating Expenses

Sales and Marketing

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

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

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

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fiscal 2013 was primarily the result of $5.2 million of additional employee-related costs from the expansion of our direct sales force by 23 personnel, the hiring of additional sales management and administrative personnel to support our growing business and other miscellaneous sales and marketing related expenses.

Research and Development

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

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

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

General and Administrative

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

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

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

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Other Income (Expense)

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

* Not Meaningful

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

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

Income Tax (Benefit) Expense

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

* Not Meaningful

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

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

Quarterly Results of Operations

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

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

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

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	Three Months Ended					
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
Revenues:						
Recurring fees	93%	93%	93%	91%	93%	94%
Interest income on funds held for clients	2%	2%	2%	1%	1%	1%
Total recurring revenues	95%	95%	95%	92%	94%	95%
Implementation services and other	5%	5%	5%	8%	6%	5%
Total revenues	100%	100%	100%	100%	100%	100%

TYLE="margin-top:18px;margin-bottom:0px; margin-left:2%">***Difference in Shares***

Celular CRT is named in various lawsuits brought by subscribers of fixed telephone lines in the State of Rio Grande do Sul rendered by Celular CRT s predecessor company *Companhia Rio-Grandense de Telecomunicações*, today *Brasil Telecom S.A.* Prior to the privatization process, telecommunications network expansions were partially financed by plans under the Ministry of Communications Order 1.361/76. This Order entitled fixed telephone lines subscribers to receive a certain number of shares of capital stock of respective fixed telephone service providers, based on amounts subscribers paid for their fixed phone line subscriptions.

The plaintiffs claim to have rights in respect of contracts entered into by Celular CRT s predecessor and each fixed phone line subscriber, by which the amount they paid for their fixed telephone subscriptions were convertible to a certain amount of the company s shares after 12-month subscription periods.

The plaintiffs allege that the procedure by which the shares were subscribed in their names was unlawful, abusive and did not take into consideration, during a period of high inflation, the monetary correction of the amount they had paid to subscribe their fixed telephone lines.

Although an Appeals Court in Rio Grande do Sul has already taken a favorable position to the plaintiffs, the decisions have not been issued against Celular CRT, as we have raised, among others, the argument that the action against us is improper on the ground that liability for any claims arising out of acts committed prior to the effective date of the breakup should remain with the predecessor company. Decisions favoring this argument have been issued, including by the Supreme Court. We believe based on the opinion of counsel that the likelihood of an unfavorable outcome with respect to these claims is remote.

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Tax-Related

Application of ICMS

In June 1998, the *Conselho Nacional de Política Fazendária*, or CONFAZ, decided to apply the ICMS tax to certain service revenues, such as activation fees, and to make the application of the tax to such activation fees retroactive for the five years preceding June 30, 1998. This claim impacts many of our subsidiaries. We believe the application of the ICMS tax to non-basic telecommunications services such as cellular activation is unlawful because it would subject to taxation certain services that are not telecommunications services. In addition, we do not believe new taxes may be applied retroactively. We believe based on the opinion of outside counsel (including certain judicial precedents) that the likelihood of an unfavorable outcome with respect to this claim is remote. Moreover, we believe that the predecessor companies would be liable to our subsidiaries for any tax liability arising from the retroactive application.

Application of COFINS and PIS

On November 27, 1998, the method for calculating the amount of contribution required under PIS and COFINS was modified by Law No. 9,718, which increased the COFINS contribution rate from 2% to 3% and permitted the deduction of up to 1/3 of the amount due under COFINS from the amount due under CSLL. Since our subsidiaries had a negative tax calculation basis, they could not benefit from this deduction. In addition, Law No. 9,718 effectively increased the amounts of COFINS and PIS due from our subsidiaries by including financial revenues in the calculation methodology. This claim impacts Telesp Celular Participações, Telesp Celular, Tele Centro Oeste and Global Telecom.

We believe that this increase is unconstitutional because: (1) Article 195 of the Brazilian Constitution, which was effective when Law No. 9,718 was enacted, provided that the PIS contribution could only be levied on compensation of employees, revenues and profits; (2) in order to increase the COFINS and PIS contributions, it would be necessary to enact a law requiring a greater quorum than the one required to approve Law No. 9,718; and (3) the law was made effective before the expiration of the required 90-day waiting period.

We believe based on the opinion of our legal counsel, and in consideration of recent decisions of the Supreme Court of Brazil, that the likelihood of an unfavorable outcome with respect to the calculation methodology is remote but with respect to the contribution rates is possible. However, we do not believe an unfavorable outcome would have a material adverse effect on our financial condition and results of operations.

Passing on of the COFINS and PIS to Customers

Several telecommunications carriers, including us, are defendants in a lawsuit brought by the federal public prosecutor s office challenging our policy of passing the COFINS and PIS expenses on to our customers by incorporating them into our charges. This claim impacts several of our subsidiaries. We are challenging the lawsuit on the grounds that COFINS and PIS are cost components of the services provided to our customers and, as such, should be incorporated into the price of such services, as is the practice throughout the telecommunications industry. We believe based on the opinion of our outside counsel that the likelihood of an unfavorable outcome with respect to this claim is remote.

CIDE

We and our subsidiaries filed lawsuits challenging the application of CIDE *Contribução de Intervenção no Domínio Econômico* on the remittances of payments owed to suppliers headquartered outside Brazil in accordance with technology transfer and technological assistance contracts or trademark and software licenses, in accordance with the terms of Law No. 10,168/2002. We believe based on the opinion of outside counsel that the likelihood of an unfavorable outcome with respect to this claim is possible.

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FUST

ANATEL, through the Abridgment of Law n° 7, dated December 15, 2005 established that (i) the values paid for telecommunication companies related to interconnection fees and network usage, cannot be excluded from the tax basis of FUST contributions and (ii) among others, the values received from telecommunication companies, for interconnection usage and for the use of its networks resources, can not be excluded from the tax basis of FUST contributions.

Considering that the second part of the Abridgment of Law is not in accordance with the Law 9.998/2000, all of our subsidiaries have filed writs of mandamus questioning the legality of this contribution and have been granted a favorable preliminary order which has suspended our liability for the contribution.

We believe, based on the opinion of counsel, that the likelihood of an unfavorable outcome with respect to this claim is possible.

FISTEL

Our subsidiary, *Telerj Celular S.A.*, holds two authorizations to provide telecommunication services granted by the government through SMP Authorization Term n° 013/2002: one to explore the *Serviço Móvel Pessoal* for an indeterminate period of time and the other to use radiofrequencies for the remaining period of time of the first license but renewable for fifteen years.

In November 30, 2005 the remaining time of the license for the usage of radiofrequency expired and consequently our subsidiary requested an extension. In order to obtain the licenses of its telecommunications stations with expiration dates, ANATEL requested the payment of a TFI (Installation Inspection Fee), with which our subsidiary disagrees on the ground that it had already had paid TFI for all fixed and mobiles stations and radioenlaces.

ANATEL s position is that the TFI assessment is due in accordance with Act n° 255. Given that ANATEL s position does not seem accurate, our subsidiary has filed an administrative proceeding in order to contest any requirement for payment of the charge.

Litigation Related to ISS on use of network

The municipalities of Salvador (in the state of Bahia) and Porto Alegre (in the State of Rio Grande do Sul) filed administrative proceedings against Telebahia Celular and Celular CRT in order to collect amounts allegedly due as a services tax (ISS). The municipalities claim that the payments received in consideration of the use of our network could be considered compensation under a lease of a movable asset, and that therefore these payments should be subject to the application of ISS. Based on the opinion of our legal counsel, we believe that Telebahia Celular and Celular CRT will be successful in its defense in these proceedings and accordingly we have not made any provisions.

Other Litigation

We are also party to certain legal proceedings arising in the normal course of business. We believe that our provisions are sufficient to cover our estimated losses due to adverse legal decisions. We believe that adverse decisions arising from these other legal proceedings would not have a material adverse effect on our business, financial condition or results of operations.

Dividend Policy and Dividends

We may pay our shareholders both dividends and interest on shareholders equity which is a form of distribution that is tax deductible in Brazil. We did not pay dividends or interest on Shareholders equity for the

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years ended December 31, 2005, 2004, 2003 because we recorded a net loss for each of those years. As a result, holders of TCP s preferred shares now have the same voting risks as the holders or common shares until we pay dividends again.

Each of our preferred shares is entitled to declared dividends, with priority to receive a noncumulative annual dividend, to the extent net profits or reserves are available for distribution, equal to the higher of (i) 6% of the amount obtained by dividing the amount of subscribed capital by the number of our shares and (ii) 3% of the amount obtained by dividing shareholders equity by the number of our outstanding shares. To the extent there are additional distributable profits, we are also required to distribute to all shareholders an amount equal to 25% of adjusted net income, or the general dividend, determined in accordance with Brazilian Corporate Law, including any realization of the unrealized net income reserve. Each of our preferred shares is also entitled to receive declared profits on par with common shares, after our common shares have been paid dividends equal to the minimum priority distribution due to our preferred shares, which is 25% of our net profits for the year.

Under Brazilian Corporate Law, a company is permitted to suspend the payment of the mandatory dividend in respect of its common and preferred shares if:

- its board of directors, independent auditors and board of auditors report to the shareholders meeting that the distribution would be incompatible with the financial conditions of that company; and

- the shareholders ratify this conclusion at the shareholders meeting. In this case,

  - the board of executive officers would forward to the CVM, within five days of the shareholders meeting, an explanation for the suspension of the payment of the mandatory dividends; and

  - the amounts which were not distributed are to be recorded as a special reserve, and, if not absorbed by losses in subsequent fiscal years, they must be distributed as dividends as soon as the financial condition of that company permits. Dividends may be distributed by us out of our retained earnings or accumulated profits in any given fiscal year.

Under our by-laws, we may pay dividends out of retained earnings or accumulated profits in any given fiscal year. For the purposes of Brazilian Corporate Law, accumulated profits are defined as net income after the provision of income tax and social contribution for the relevant fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to warrants, income bonds, employees and management s participation in a company s profits. Retained earnings are defined as the amount of our net income in prior years that was not paid out as dividends in the year in which it was earned, but rather was retained in accordance with a proposal of the board of directors duly approved by a shareholders meeting.

At each annual shareholders meeting, the board of directors is required to determine how net profits for the preceding fiscal year are to be allocated. Under Brazilian Corporate Law, we are required to maintain a statutory reserve, to which we must allocate 5% of our net profits for each fiscal year until the amount of such reserve equals 20% of our paid-in capital. Losses, if any, may be charged against the statutory reserve.

Brazilian Corporate Law also provides for two additional discretionary allocations of net profits that are subject to approval by the shareholders at the annual shareholders meeting:

first, a percentage of net profits may be allocated to the contingency reserve for anticipated losses that may be charged to it in future years. Any amount so allocated in a prior year must be either:

reversed in the fiscal year in which the loss was anticipated if such loss does not in fact occur; or

written off in the event that the anticipated loss occurs;

second, if the amount of unrealized revenue exceeds the sum of (i) the statutory reserve and (ii) retained earnings, such excess may be allocated to the unrealized profit reserve at the direction of the board of directors.

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Allocations may not hinder the payment of mandatory dividends. Unrealized revenue reserve is defined under Brazilian Corporate Law as the sum of:

- the share of equity earnings of affiliated companies, which is not paid as cash dividends; and
- profits as a result of income from operations after the end of the next succeeding fiscal year.

The amounts available for distribution are determined on the basis of financial statements prepared in accordance with Brazilian Corporate Law, which differs from other financial statements such as our consolidated financial statements included in this annual report.

Priority and Amount of Preferred Dividends

Our by-laws provide for a minimum noncumulative dividend of (i) 6% of the amount obtained by dividing the amount of subscribed capital by the number of our shares and (ii) 3% of the amount obtained by dividing shareholders equity by the number of our outstanding shares, whichever is greater. As a result of such provision, holders of our preferred shares are entitled to receive, in any year, distributions of cash dividends prior to the holders of our common shares receiving any distribution of cash dividends in such year. In addition, distributions of cash dividends in any year are made:

- first, to the holders of preferred shares up to the amount of the dividend that must be paid to the holders of preferred shares for such year;
- then, to the holders of common shares until the amount distributed in respect of each common share is equal to the preferred dividend; and

thereafter, distributed equally among holders of preferred and common shares.

Payment of Dividends

We are required by Brazilian Corporate Law and by our by-laws to hold an annual shareholders meeting by April 30 of each year, at which, among other things, an annual dividend may be declared by a decision of our shareholders on the recommendation of our board of directors. The payment of annual dividends in any given year is based on the financial statements prepared for the preceding fiscal year ending December 31. Under Brazilian Corporate Law, dividends are required to be paid within 60 days of the annual shareholders meeting, or on the date determined at a shareholders meeting, but in any case prior to the end of the fiscal year in which such dividend was declared. A shareholder has a three-year period from the dividend payment date to claim dividends in respect of its shares, after which time unclaimed dividends revert back to us. Because our shares are issued in book-entry form, dividends will be credited to the depositary, which is responsible for the delivery of the dividends to their respective holders. We are not required to adjust the amount of paid-in capital for inflation. Annual dividends may be paid to shareholders pro rata according to the date when the subscription price is paid to us.

Our preferred shares underlying the ADSs are held in Brazil by a Brazilian custodian, Banco Itaú S.A., as the agent for the depositary, which is the registered owner of our shares.

Payments of cash dividends and distributions, if any, will be made in *reais* to the Custodian on behalf of The Bank of New York, as depositary, which will then convert those proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depositary for distribution to holders of ADRs. In the event that the Custodian is unable to immediately convert the *reais* received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by devaluations of the real that occur before such dividends are converted and remitted. Dividends in respect of our preferred shares paid to resident and non-resident shareholders, including holders of ADSs, are not currently subject to Brazilian withholding tax.

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B. Significant Changes

There have been no significant changes in 2005 other than the Merger as discussed above in Item 4. Information on the Company Merger of the Vivo Companies.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Brazilian private equity and debt are principally traded on BOVESPA, which is the trading market for our common and preferred shares. Our preferred shares began trading on the Brazilian stock exchanges on September 21, 1998. In the United States, our preferred shares trade in the form of ADSs, each representing 2,500 preferred shares as of December 31, 2005, issued by The Bank of New York, as depositary pursuant to a Deposit Agreement among TCP, the depositary and the registered holders and beneficial owners from time to time of ADRs. The ADSs commenced trading on the New York Stock Exchange on November 16, 1998 under the symbol TCP.

The table below sets forth, for the indicated periods, the high and low closing prices of the ADSs on The New York Stock Exchange, in U.S. dollars, and the preferred shares on the São Paulo Stock Exchange, in *reais*:

	New York Stock Exchange US$ per ADS		São Paulo Stock Exchange R$ per 1,000 preferred shares	
Year ended	**High**	**Low**	**High**	**Low**
December 31, 2001	28.43	4.15	58.05	12.87
December 31, 2002	9.00	1.58	22.92	6.43
December 31, 2003	6.55	2.04	20.51	7.84
December 31, 2004	8.94	5.38	27.39	16.00
December 31, 2005	7.52	3.12	19.38	7.00
Year ended December 31, 2004				
First quarter	8.92	5.95	26.40	18.31
Second quarter	8.94	5.55	27.39	18.31
Third quarter	7.19	5.57	23.58	16.95
Fourth quarter	6.80	5.38	18.73	16.00
Year ended December 31, 2005				
First quarter	7.52	5.49	19.38	14.90
Second quarter	6.20	4.25	15.85	9.94
Third quarter	4.70	3.65	10.89	8.31

Fourth quarter	4.14	3.12	9.29	7.00
Quarter ended				
March 31, 2006	5.55	3.82	11.96	8.46
Month ended				
October 31, 2005	4.00	3.12	9.03	7.00
November 30, 2005	3.68	3.38	8.24	7.33
December 31, 2005	4.14	3.63	9.29	8.00
January 31, 2006	5.11	4.10	11.70	8.95
February 28, 2006	5.51	4.87	11.74	10.25
March 31, 2006	5.33	3.82	11.30	8.46

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B. Plan of Distribution
Not applicable.

C. Markets
Trading on the São Paulo Stock Exchange (BOVESPA)

In 2000, the BOVESPA was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities are now traded only on the BOVESPA, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

When shareholders trade in common and preferred shares on the BOVESPA, the trade is settled in three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, *Companhia Brasileira de Liquidação e Custódia S.A.*, or CBLC.

The BOVESPA is a nonprofit entity owned by its member brokerage firms. Trading on the BOVESPA is limited to member brokerage firms and a limited number of authorized nonmembers. The BOVESPA has two open outcry trading sessions each day from 11:00 a.m. to 1:30 p.m. and from 2:30 p.m. to 5:45 p.m., São Paulo time, except during daylight savings time in the United States. During daylight savings time in the United States, the sessions are from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 4:45 p.m., São Paulo time, to closely mirror the NYSE trading hours. Trading is also conducted between 11:00 a.m. and 6:00 p.m., or between 10:00 a.m. and 5:00 p.m. during daylight savings time in the United States on an automated system known as the Computer Assisted Trading System (*Sistema de Negociacão Assistida por Computador*) on the BOVESPA and on the National Electronic Trading System (*Sistema Eletrônico de Negociação Nacional*). This system is a computerized system that links electronically with the seven smaller regional exchanges. The BOVESPA also permits trading from 6:45 p.m. to 7:30 p.m. on an online system connected to traditional and Internet brokers called the after market. Trading on the after market is subject to regulatory limits on price volatility and on the volume of shares transacted through Internet brokers.

In order to better control volatility, the BOVESPA adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of the BOVESPA falls below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session.

There are no specialists or market makers for our shares on BOVESPA. Trading in securities listed on the BOVESPA may be effected off the Exchange in certain circumstances, although such trading is very limited.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. Payment for shares is made through the facilities of a separate clearinghouse, which maintains accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The clearinghouse for BOVESPA is *Companhia Brasileira de Liquidação e Custódia S.A.* CBLC, which is wholly owned by that Exchange.

The BOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. As of December 31, 2005, the aggregate market capitalization of the 343 companies listed on the BOVESPA was equivalent to approximately R$1,128.5 billion (US$482.1 billion). By comparison, as of December 31, 2005, the aggregate market capitalization of the 2,672 companies listed on the NYSE was approximately US$21.4 trillion. Although all of the outstanding shares of an exchange listed company may trade on the BOVESPA, in most cases only the preferred shares or fewer than half of the listed common shares are actually available for trading

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by the public, the remainder being held by small groups of controlling persons, by government entities or by one principal shareholder, that rarely trade their shares. For this reason, data showing the total market capitalization of BOVESPA tends to overstate the liquidity of the Brazilian equity securities market. Overall, the Brazilian equity market is relatively small and illiquid compared to major world markets. In 2005, the combined daily trading volumes on BOVESPA averaged approximately U.S.$666.9 million. See Risk Factors Risks Relating to Our Preferred Shares and Our ADSs The relative volatility and illiquidity of the Brazilian securities markets may adversely effect holders of ADSs.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, by the *Conselho Monetário Nacional*, or CMN, the National Monetary Council and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by Law No. 6,385, as amended, known as the Brazilian securities law, and by Law No. 6,404, as amended, known as the Brazilian Corporate Law.

Law No. 10,303 of December 31, 2001 amended the Brazilian Corporate Law and the Brazilian securities law. Consequently, some major modifications resulted for the businesses of the publicly traded companies. Among the changes, Law No. 10,303, along with Executive Order No. 8 and Decree No. 3.995, all dated October 31, 2001, provided that the CVM was to have the scope of its authority and autonomy altered and expanded. The CVM, which is the agency in charge of regulating the market, now handles some functions that were reserved to the Banco Central, for example, the regulation and organization of the futures and commodities markets. Other modifications include changes in the proportion of common and preferred shares (these changes apply solely to companies incorporated after the enactment of the new law), new rules for the issuance of debentures and the exercise of the right of withdrawal, enhanced duties and powers for the members of the Board of Auditors and the Board of Directors, and the ability of publicly traded companies to make publications available over the Internet. Also provided is the pooling agreement, the so-called block voting, by which the shareholders agree during a prior meeting on the direction of the votes that will be cast at the general meetings. The purpose of this type of vote is to prevent any possible individual dissidents or interests from harming corporate interests.

The period established for companies to adapt their by-laws is one year from the publication of the law on November 1, 2001. Our shareholders held a general shareholders meeting on March 27, 2002, and approved the necessary modifications to our by laws.

Under the Brazilian Corporate Law, a company is either public, a *companhia aberta*, such as our company, or private, a *companhia fechada*. All public companies are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may have its securities traded either on BOVESPA or on the Brazilian over-the-counter market. The shares of a public company may also be traded privately, subject to certain limitations. In order to be listed on BOVESPA a company must apply for registration with the CVM and the stock exchange. Once the stock exchange lists a company and the CVM accepts its registration as a public company, its securities may start to be traded.

Trading of securities on BOVESPA may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of BOVESPA or the CVM, among other reasons, due to a belief that the company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or BOVESPA.

The Brazilian securities law, Brazilian Corporate Law and the regulations issued by the CVM, the CMN and the Central Bank provide, among other things, disclosure requirements and restrictions on insider trading, price manipulation and protection of minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in some other jurisdictions.

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Principal Differences Between the Brazilian and the U.S. Corporate Governance Practices

The significant differences between our corporate governance practices and the NYSE corporate governance standards are as follows:

Independence of Directors and Independence Tests

The Brazilian Corporate Law and our by-laws require that our directors be elected by our shareholders at a general shareholders meeting . Nine of our directors are appointed by our controlling shareholder, but three were appointed in accordance with Sarbanes-Oxley.

The Brazilian Corporate Law and CVM establish rules in relation to certain qualification requirements and restrictions, investiture, compensation, duties and responsibilities of the companies executives and directors. Although we believe these rules provide adequate assurances that our directors are independent, we believe such rules would permit us to have directors that would not otherwise pass the independence tests established by the NYSE.

Executive Sessions

According to the Brazilian Corporate Law, up to one-third of the members of the board of directors can be elected into executive positions. The remaining non-management directors are not expressly empowered to serve as a check on management and there is no requirement that those directors meet regularly without management. Notwithstanding, none of our executive officers are members of our board of directors.

Committees

We are not required under applicable Brazilian Corporate Law to have, and accordingly we do not have, a Nominating Committee, Corporate Governance Committee and Compensation Committee. Pursuant to our by-laws our directors are elected by our shareholders at a general shareholders meeting . Compensation for our directors and executive officers is established by our shareholders.

Audit Committee and Audit Committee Additional Requirements

Brazilian Corporate Law requires us to have a board of auditors (*Conselho Fiscal*) which is composed of three to five members elected at the general shareholders meeting. The board of auditors operates independently from our management and from our external auditors.

Its main function is to examine the financial statements of each fiscal year and provide a formal report to our shareholders. We have a board of auditors that consists of three members and three alternates and which meets once a quarter. In April 2003, the SEC has stated that the listing of securities of foreign private issuers may be exempt from the audit committee requirements if the issuer meets certain requirements.

We also have an audit committee, whose members follow the independence requirements of Rule 10A 3(c)(3) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. See Item 16.D. Exemptions from the Listing Standards for Audit Committees.

Under the Brazilian Corporate Law, an audit committee member may simultaneously serve on the audit committees of more than three public companies. In addition, our company does not impose limitations in this regard and our board is not required to affirmatively determine and disclose that the director s ability to effectively serve is not impaired.

Policy for Disclosure and Disclosure Committee

The Policy for Disclosure of Relevant Act or Fact was set up by the Board of Directors of TCP in compliance with Article 16 of CVM Instruction no. 358, dated July 17, 2002.

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The ultimate responsibility for the disclosure of relevant information, acts or facts is incumbent upon the CEO, the CFO and the Investor Relations Officer, the first two being responsible for authorizing information to be disclosed, while the Investor Relations Officer is responsible for the communication itself of the relevant information, under the terms of the provisions of the Relevant Act or Fact Policy and CVM Instructions 358/02 and 369/02.

Disclosures are reviewed by the Disclosure Committee in support of the CEO and CFO. The Disclosure Committee is responsible for processing the disclosure of information and relevant Acts and Facts of the Company, and for ensuring quality disclosure of information, as well as for the implementation of the Disclosure Procedures and Controls.

The Disclosure Committee reports directly to the CEO and to the CFO and is composed of one coordinator and 10 members (representing the Investor Relations, Controls, Corporate Communication, Accounting, Financial, Mergers and Acquisitions, Communication and Publicity and Compliance Officers, as well as the General Secretary and the Legal Officer), and has the duty of evaluating the need to outsource services (such as auditors, legal counsel and other independent consultants), in order to provide adequate support for the disclosure process.

Shareholder Approval of Equity Compensation Plans

Our shareholders do not have the opportunity to vote on all equity compensation plans. However, any issuance of new shares that exceeds the authorized capital is subject to shareholder confirmation.

Corporate Governance Guidelines

We have not adopted any corporate governance guidelines in addition to the rules imposed upon us by applicable Brazilian law. We believe that the corporate governance guidelines applicable to us under Brazilian law are consistent with the guidelines established by the NYSE. We have adopted and observe (i) the Policy of Disclosure of Material Acts or Facts, which deals with the public disclosure of all relevant information as per CVM s guidelines; and (ii) the Policy of Negotiation of Equities, which requires management to inform all transactions relating to our securities.

Code of Business Conduct and Ethics

Although the adoption of a code of ethics is not required by Brazilian Corporate Law, TCP implemented a Code of Ethics and Conduct for all

Directors and employees in May, 2005. See Item 16.B. Code of Ethics.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

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B. Memorandum and Articles of Association
The following summarizes certain material provisions of our by-laws and Brazilian law, the main bodies of regulation governing us. Copies of our by-laws have been filed as exhibits to this annual report on Form 20 F.

Register

Our amended and restated by-laws were registered with the Public Registry of the state of São Paulo, or JUCESP, No. 82.466/03 8 on April 30, 2003, under company number (NIRE) 3530015879 2. Article 5 of our by-laws will be amended as a result of the capital increase approved by a general meeting of our shareholders on February 22, 2006, which is in the process of being registered with JUCESP.

Objectives and Purposes

We are a publicly traded company duly registered with the Brazilian securities commission under No. 017710. Article 2 of our by-laws provides that our corporate purpose is to:

- exercise control of operating companies which provide cellular mobile telecommunications services, personal mobile services and other services in conformity with the concessions, authorizations and permissions that have been granted to us;

- promote, through our subsidiaries or controlled companies, the expansion and implementation of telecommunications services within our concessions, authorizations and permissions;

- promote, carry out and direct the financing of capital from internal or external sources to be used by us or our controlled companies;

- promote, carry out and encourage study and research activities aimed at the development of the telecommunications sector;

- perform, through our subsidiaries and affiliated companies, specialized technical services related to the telecommunications sector;

- promote, encourage, carry out and coordinate, through our subsidiaries or controlled companies, the development and training of personnel necessary to perform activities in the telecommunications sector;

- carry out and promote the import of goods and services for the operations of our subsidiaries and controlled companies;

- execute other activities connected or related to our objective;

- participate in the equity capital of other companies; and

- trade equipment and materials necessary or useful for providing telecommunications services.

Directors

Below is a description of some of the provisions of our by-laws concerning the members of our board of directors:

- the board of directors has the power to approve investments and acquisition of assets, assume any obligation and execute contracts not included in the budget for an amount exceeding R$300 million, the public issuance of promissory notes, and the acquisition of our shares for cancellation or deposit with a custodian; and

- the board of directors has the power to apportion the global remuneration set forth by the shareholders meeting between the directors and the executive officers.

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Pursuant to Brazilian Corporate Law, each member of the board of directors must have at least one share of our capital stock to be elected as a Director. There are no provisions in our by-laws with respect to:

- age limits for retirement of directors; and
- anti-takeover mechanisms or other procedures designed to delay, defer or prevent changes in our control.

Although there are no provisions in our by-laws with respect to the following, they are regulated by Brazilian Corporate Law and CVM regulations:

- a director s power to vote on proposals in which the Director is materially interested;
- a director s power to vote compensation to him or herself in the absence of an independent quorum;
- borrowing powers exercisable by the directors;
- required shareholding for director qualification; and
- disclosure of share ownership.

Rights Attaching to Shares

Dividend Rights

See Item 8A. Consolidated Statements and Other Financial Information Dividend Policy and Dividends, and Payment of Dividends.

Voting Rights

Each common share entitles the holder to one vote at meetings of shareholders. Our preferred shares do not entitle the holder to vote except as discussed in our by-laws in Articles 10 and 12. Holders of our preferred shares are each entitled to attend or to address meetings of shareholders and to elect members of our board of directors according to Article 141, fourth paragraph, II, and Article 141, fifth paragraph, of Law No. 6,404/76, as amended by Article 8, fourth paragraph of Law No. 10,303/01.

One of the members of our board of auditors and his or her alternate are elected by the majority vote of the holders of our preferred shares present at the annual meeting of shareholders at which the members of the board of auditors are elected.

Brazilian Corporate Law provides that certain non-voting shares, such as our preferred shares, acquire voting rights in the event we fail for three consecutive fiscal years to pay the mandatory minimum dividend to which such shares are entitled, until such payment is made.

Our preferred shares are entitled to full voting rights in the event that we fail to pay the mandatory minimum dividends to which they are entitled for three consecutive years, and with respect to:

- the approval of any long-term contract between us and our controlled subsidiaries, on the one hand, and any controlling shareholder or that shareholder s affiliates and related parties, on the other hand; and

- changes/eliminations of certain rights and obligations as provided for in our by-laws.

Any change in the preference, benefits, conditions of redemption and amortization of our preferred shares, or the creation of a class of shares having priority or preference over our preferred shares, would require the approval of holders of a majority of our outstanding preferred shares at a special meeting of holders of our preferred shares. Such a meeting would be called by publication of a notice in the state official gazette and two other Brazilian newspapers, as determined by the shareholders, at least thirty days prior to the meeting, but would

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not generally require any other form of notice. The execution of agreements with related parties, under terms and conditions more burdensome for the Company than market terms for agreements of the same nature shall require prior approval by the General Meeting of Shareholders, with due regard, in any case, to the provisions in article 117 of Law 6.404/76.

In any circumstances in which holders of our preferred shares are entitled to vote, each preferred share will entitle the holder to one vote.

Meeting of Shareholders

According to Brazilian law, shareholders must be previously convoked in order for a general or extraordinary shareholders meeting to be installed. The convocation must be published in the state official gazette and two other newspapers, as determined by the shareholders, at least 15 days prior to the meeting s scheduled date. If the first meeting is not installed for some reason, the second convocation must be published at least eight days before the second meeting date.

On the first call, meetings may only be installed with a minimum quorum of one-fourth of the holders of voting shares. Extraordinary meetings whose object is the amendment of the by-laws may only be installed on the first call with a minimum of two thirds of the voting capital present. In addition, some decisions require the approval of at least one half of the holders of voting shares (qualified quorum). On a second call, the meetings are installed regardless of quorum.

Preemptive Rights

Each of our shareholders has a general preemptive right to subscribe for shares in any capital increase in proportion to its shareholding. A minimum period of 30 days following the publication of notice of the capital increase is allowed for the exercise of the right.

In the event of a capital increase, which would maintain or increase the proportion of capital represented by our preferred shares, holders of ADSs, or of our preferred shares, would have preemptive rights to subscribe only to our newly issued preferred shares. In the event of a capital increase, which would reduce the proportion of capital represented by our preferred shares, holders of ADSs, or of our preferred shares, would have preemptive rights to subscribe to our preferred shares in proportion to their shareholdings and to our common shares only to the extent necessary to prevent dilution of their interest.

Preemptive rights to purchase shares may not be offered to U.S. holders of our ADSs unless a registration statement under the Securities Act is effective with respect to the shares underlying those rights, or an exemption from the registration requirements of the Securities Act is available. Consequently, if you are a holder of our ADSs who is a U.S. person or is located in the United States, you may be restricted in your ability to participate in the exercise of preemptive rights.

Right of Redemption

Brazilian Corporate Law provides for the right of redemption to minority shareholders under certain circumstances.

The right of a dissenting shareholder to seek redemption arises in case our shareholders representing more than 50% of the voting shares, common shares or preferred shares, as applicable, decide to:

- change the preference of our preferred shares or to create a class of shares having priority or preference over our preferred shares, except if such actions are expressly permitted in the by-laws at the time of their adoption by our shareholders;

- change the preference of our preferred shares, any right they carry, their amortization or redemption rights, or to create a class of shares having priority or preference over our preferred shares;

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- reduce the mandatory distribution of dividends;
- change our corporate purposes;
- transfer all of our shares to another company in order to make us a wholly owned subsidiary of that company;
- approve the acquisition of another company, the price of which exceeds certain limits set forth in Brazilian Corporate Law;
- participate in a group of companies if certain liquidity standards are not met according to the Brazilian Corporate Law as amended by Law No. 10,303/01;
- merge or consolidate us with another company if certain liquidity standards are not met according to the Brazilian Corporate Law as amended by Law No. 10,303/01; and
- *cisão*, or split up, Vivo Participações S.A., according to the Brazilian Corporate Law, as amended by Law No. 10,303/01, in any of the following situations: (i) reduction of minimum dividends; (ii) participation in a group of companies; or (iii) change of our corporate purposes, except in case the company receiving our assets has a corporate purpose substantially identical to ours.

The right to redemption lapses 30 days after publication of the minutes of the relevant shareholders meeting or, whenever the resolution requires the approval of the holders of our preferred shares by vote taken in a special meeting of a majority of the holders of our preferred shares affected by the resolution, within 30 days from the publication of the minutes of that special meeting. We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of those rights if the redemption of shares of dissenting shareholders would jeopardize our financial stability.

Unless otherwise provided in our by-laws, which is not the case, shares are redeemable at their book value, determined on the basis of the last annual balance sheet approved by the shareholders. If the shareholders meeting giving rise to redemption rights occurs more than 60 days after the date of the last annual balance sheet, a shareholder may demand that its shares be valued on the basis of a new balance sheet that is as of a date within 60 days of such shareholders meeting.

Form and Transfer

Our shares are maintained in book entry form with a transfer agent, Banco ABN AMRO Real S.A., and the transfer of our shares is made in accordance with the applicable provision of Brazilian Corporate Law, which provides that a transfer of shares is effected by an entry made by the transfer agent on its books, debiting the share account of the seller and crediting the share account of the purchaser against presentation of a written order of the seller or judicial authorization or order in an appropriate document which remains in the possession of the transfer agent. Our preferred shares underlying our ADSs are registered on the records of BOVESPA in the name of the Bank of New York, as depositary of the ADSs.

Transfers of shares by a foreign investor are made in the same way and executed by such investor s local agent on the investor s behalf except that, if the original investment was registered with the Central Bank of Brazil under the Brazilian foreign investment in capital markets regulations, the foreign investor should also seek amendment, if necessary, through its local agent, of the certificate of registration to reflect the new ownership.

BOVESPA operates a central clearing system. A holder of our shares may choose, at its discretion, to participate in this system. All shares elected to be put into the system will be deposited in custody with the relevant stock exchange through a Brazilian institution duly authorized to operate by the Central Bank of Brazil and having a clearing account with the relevant stock exchange. The fact that such shares are subject to custody with the relevant stock exchange will be reflected in our register of shareholders. Each participating shareholder will, in turn, be registered in our register of beneficial shareholders maintained by the relevant stock exchange and will be treated in the same way as registered shareholders.

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Regulation of Foreign Investment and Exchange Controls

There are no restrictions on ownership of our preferred shares by individual or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts abroad is subject to restrictions under foreign investment legislation which generally require, among other things, that the relevant investment be registered with the Central Bank and the CVM.

Foreign investors may register their investment in our shares under Law 4,131 of September 3, 1962 or Resolution 2,689 of January 26, 2000. Registration under Resolution 2,689 affords favorable tax treatment to non-Brazilian investors who are not residents in a tax haven jurisdiction (i.e., countries that do not impose income tax or where the maximum income tax rate is lower than 20%), as defined by Brazilian tax laws.

Under Resolution 2,689, non-Brazilian investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution 2,689, the definition of non-Brazilian investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Under Resolution 2,689, a non-Brazilian investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment;
- appoint an authorized custodian in Brazil for its investment;
- register as a non-Brazilian investor with the CVM; and
- register its foreign investment with the Central Bank.

Additionally, the investor operating under the provisions of Resolution 2,689 must be registered with the Brazilian internal revenue service (*Receita Federal*) pursuant to the latter s Regulatory Instruction 200. This registration process is undertaken by the investor s legal representative in Brazil.

Securities and other financial assets held by non-Brazilian investors pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will. See Item 10.E. Taxation Brazilian tax considerations for more information.

Resolution 1,927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Accordingly, the proceeds from the sale of ADSs by holders of American Depositary Receipts outside Brazil are free of Brazilian foreign investment controls and holders of ADSs who are not resident in a tax haven jurisdiction will be entitled to favorable tax treatment.

The right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investment be registered with the Central Bank. Restrictions on the remittance of foreign capital abroad could hinder or prevent the custodian for the preferred shares represented by ADSs, or holders who have exchanged ADSs for preferred shares, from converting dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad. Delays in, or refusal to, granting the required government approval for conversions of Brazilian currency payments and remittances abroad could adversely affect holders of ADSs.

We have obtained a certificate of registration in the name of The Bank of New York, the depositary. Pursuant to this certificate, the custodian and the depositary are able to convert dividends and other distributions

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with respect to the preferred shares represented by ADSs into foreign currency and to remit the proceeds outside Brazil. If a holder exchanges ADSs for preferred shares, such holder may continue to rely on the depositary s certificate of capital registration for only five business days after such exchange. After that, such holder must seek to register its investment directly with the Central Bank. Thereafter, unless the holder has registered its investment with the Central Bank, such holder may not convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such preferred shares. Such holder generally will be subject to less favorable Brazilian tax treatment than a holder of ADSs.

Before March 14, 2005, there were two principal foreign exchange markets in Brazil, in which notes were freely negotiated but could be strongly influenced by Central Bank intervention:

- the commercial rate exchange market dedicated principally to trade and financial foreign exchange transactions such as the buying and selling of registered investments by foreign entities, the purchase or sale of shares, or the payment of dividends or interest with respect to shares; and

- the floating rate exchange market that was generally used for transactions not conducted through the commercial foreign exchange market.

On March 4, 2005, the National Monetary Council enacted Resolution No. 3265, pursuant to which the commercial rate exchange market and the floating rate exchange market were unified in a sole exchange market, effective as of March 14, 2005. The new regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *reais* by a person or legal entity, without limitation of the amount involved, provided, however, the legality of the transaction.

Under Brazilian law, whenever there is a serious imbalance in Brazil s balance of payments or reasons to foresee a serious imbalance, the Brazilian government may impose temporary restriction on the remittance of foreign currency abroad and on the conversion of Brazilian currency into foreign currencies. Such restrictions may hinder or prevent the custodian or holders who have exchanged ADSs for underlying preferred shares from converting distributions or the proceeds from any sale of such shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad.

C. Material Contracts

On December 11, 2002, after all of the TCP operators had switched over to the SMP system, ANATEL approved our acquisition of the remainder of the capital stock Global Telecom Holdings and, on December 27, 2002, we acquired the remaining portion of those three holding companies. On December 31, 2002, we owned, directly and indirectly, 100% of the voting stock and economic interest of Global Telecom.

For a description of such acquisitions, see Item 4. Information on the Company Our History and Development Global Telecom.

On December 10, 2002, Telesp Celular entered into an authorization agreement with ANATEL, acting as a representative of the Brazilian government, which enables it to provide personal cellular services (SMP) in the area corresponding to the state of São Paulo, with the exception of the following municipalities: Altinópolis, Aramina, Batatais, Brodowski, Buritizal, Cajurú, Cássia dos Coqueiros, Colômbia, Franca, Guaíra, Guará, Ipuã, Ituverava, Jardinópolis, Miguelópolis, Morro Agudo, Nuporanga, Orlândia, Ribeirão Corrente, Sales de Oliveira, Sta Cruz da Esperança, Sto Antonio da Alegria and São Joaquim da Barra. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes Telesp Celular to provide SMP services until August 5, 2008. It may be renewed for an additional term of fifteen years upon payment of 2% of Telesp Celular s net revenues from usage charges in the region described above in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, Telesp Celular was required to pay R$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby.

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On December 10, 2002, Telesp Celular entered into an authorization agreement with ANATEL, acting as a representative of the Brazilian government, which enables it to provide personal cellular services (SMP) in the municipalities of Ribeirão Preto and Guatarapá and the district of Bonfim Paulista. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes Telesp Celular to provide SMP services until January 20, 2009. It may be renewed for an additional term of fifteen years upon payment of 2% of Telesp Celular s net revenues from usage charges in the municipalities mentioned above in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, Telesp Celular was required to pay R$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby.

On December 10, 2002, Global Telecom entered into an authorization agreement with ANATEL, acting as a representative of the Brazilian government, which enables it to provide personal cellular services (SMP) in the area corresponding to the states of Paraná and Santa Catarina. The authorization replaces the concession agreement entered into with ANATEL on April 8, 1998, and authorizes Global Telecom to provide SMP services until April 8, 2013. It may be renewed for an additional term of fifteen years upon payment of 2% of Global Telecom s net revenues from usage charges in its region in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, Global Telecom was required to pay R$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby.

On February 3, 2003, TCO entered into an authorization agreement with ANATEL, acting as a representative of the Brazilian government, which enables it to provide personal cellular services (SMP) in the area corresponding to the Brazil s Federal District. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes TCO to provide SMP services until July 24, 2006. It may be renewed for an additional term of fifteen years upon payment of 2% of TCO s net revenues from usage charges in the region described above in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, TCO was required to pay R$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby. TCO s subsidiaries also entered into authorization agreements with ANATEL under similar terms.

On April 25, 2003, TCP acquired 64.03%, of the voting capital stock of TCO for approximately R$1.505 billion, corresponding to R$19.48719845 per each lot of 1,000 shares acquired. At the date hereof, we have paid R$284.7 million of the total amount and the remaining will be paid in installments. TCO is an A Band operator providing cellular telecommunications services in the Federal District of Brazil, as well as in the Brazilian states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins. The agreement also included the acquisition of TCO s B Band subsidiary NBT, which provides cellular telecommunications service in the Brazilian states of Amapá, Amazonas, Maranhão, Pará and Roraima.

D. Exchange Controls

There are no restrictions on ownership of preferred shares or common shares by individuals or legal entities domiciled outside of Brazil.

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the investments have been registered with the Central Bank and the CVM. Such restrictions on the remittance of foreign capital abroad may hinder or prevent the custodian for our preferred shares represented by our ADSs or the holders of our preferred shares from converting dividends, distributions or the proceeds from any sale of these preferred shares into U.S. dollars and remitting the U.S. dollars abroad. Holders of our ADSs could be adversely affected by delays in, or refusal to grant any, required government approval to convert Brazilian currency payments on the preferred shares underlying our ADSs and to remit the proceeds abroad.

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Resolution No. 1,927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. It restates and amends Annex V to Resolution No. 1,289 of the National Monetary Council, known as the Annex V Regulations. The ADS program was approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are free of Brazilian foreign investment controls, and holders of the ADSs are entitled to favorable tax treatment. See Item 10. Taxation Brazilian Tax Considerations.

Under Resolution 2,689, of the CMN, foreign investors registered with the CVM may buy and sell Brazilian securities, including our preferred shares, on the Brazilian stock exchange. Registration is available to qualified foreign investors, which principally include foreign financial institutions, legal entities and individuals. Resolution 2,689 also extends favorable tax treatment to registered investors. See Item 10. Taxation Brazilian Tax Considerations.

Pursuant to the Resolution 2,689, foreign investors must: (i) appoint at least one representative in Brazil with the ability to perform actions regarding the foreign investment; (ii) complete the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with CVM; and (iv) register the foreign investment with the Central Bank.

The securities and other financial assets held by a foreign investor pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in register, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, the trading of securities is restricted to transactions carried out on the stock exchanges or over-the-counter markets licensed by the CVM.

Registered Capital

Amounts invested in our preferred shares by a non-Brazilian holder who qualifies under Resolution 2,689 and obtains registration with the CVM, or by the depositary representing an ADS holder, are eligible for registration with the Central Bank. This registration which must be done before the first investment on Brazilian stock exchanges (the amount so registered is referred to as registered capital) allows the remittance to and outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized through, dispositions of our preferred shares. The registered capital per preferred share purchased in the form of an ADS, or purchased in Brazil and deposited with the depositary in exchange for an ADS, will be equal to its purchase price (stated in U.S. dollars). The registered capital per preferred share withdrawn upon cancellation of an ADS will be the U.S. dollar equivalent of (i) the average price of a preferred share on the Brazilian stock exchange on which the most preferred shares were traded on the day of withdrawal or (ii) if no preferred shares were traded on that day, the average price on the Brazilian stock exchange on which the most preferred shares were traded in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar equivalent will be determined on the basis of the average market rates quoted by the Central Bank on these dates.

A non-Brazilian holder of preferred shares may experience delays in effecting Central Bank registration, which may delay remittances abroad. This delay may adversely affect the amount in U.S. dollars, received by the non-Brazilian holder.

A certificate of registration has been issued in the name of the depositary with respect to the ADSs and is maintained by the custodian on behalf of the depositary. Pursuant to the certificate of registration, the custodian and the depositary are able to convert dividends and other distributions with respect to the preferred shares represented by our ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges such ADSs for preferred shares, such holder will be entitled to continue to rely on the depositary s certificate of registration for five business days after such exchange, following which such holder must seek to obtain its own certificate of registration with the Central Bank. Thereafter, any holder of preferred

Operating Activities

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

The increase in net cash provided by operating activities from fiscal 2013 to fiscal 2014 was the primarily the result of the change of $2.3 million in operating assets and liabilities partially offset by the increase in net loss and increases in non-cash items including stock-based compensation expenses and depreciation and amortization. The decline in net cash provided by operating activities from fiscal 2012 to fiscal 2013 was primarily the result of a decrease of $1.1 million in net income, as well as a decline of $0.9 million in operating assets and liabilities, partially offset by increased depreciation and amortization.

Investing Activities

Changes in net cash (used in) provided by investing activities are significantly influenced by the amount of funds held for clients at the end of a reporting period. Changes in the amount of funds held for client from period to period will vary substantially. Our payroll processing activities involves the movement of significant funds from the account of an employer to employees and relevant taxing authorities. During fiscal 2014 we processed almost $39 billion in payroll transactions. We debit a client's account prior to any disbursement on its behalf, at which time we begin earning

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interest on such funds. We currently have agreements with nine banks to execute ACH and wire transfers to support our client payroll and tax services. We believe we have sufficient capacity under these ACH arrangements to handle our transactions for the foreseeable future.

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

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

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

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

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

Financing Activities

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

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

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Contractual Obligations and Commitments

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

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

Our remaining reseller agreement provides that we are required upon a termination of the agreement to acquire the assets of the reseller. This agreement provided that the reseller may terminate the agreement by providing nine months' prior notice or upon an initial public offering by the Company. We amended this agreement in December of 2013 to provide that the reseller may not give a nine-month termination notice until after the earlier of (i) six months following the closing of an initial public offering by us or (ii) December 31, 2014. In addition, we, but not the reseller, now have the right to terminate the agreement at any time after the date that is six months following the completion of an initial public offering by us. If a termination were to occur, the purchase price of the assets would be equal to 3.3 times the net revenues of the reseller for the 12 months preceding the termination effective date. We paid this reseller $1.3 million, $1.8 million and $2.1 million for the full fiscal years 2012, 2013 and 2014, respectively. For additional information see note 16 to our consolidated financial statements included elsewhere in this prospectus.

Capital Expenditures

We expect to increase capital spending as we continue to grow our business and expand and enhance our data centers and technical infrastructure. Future capital requirements will depend on many factors, including our rate of sales growth. In the event that our sales growth or other factors do not meet our expectations, we may eliminate or curtail capital projects in order to mitigate the impact on our use of cash. Capital expenditures were $3.4 million, $4.0 million and $6.7 million for fiscal 2012, 2013 and 2014, respectively, and $2.5 million for the three months ended September 30, 2014, exclusive of capitalized internally developed software costs of $3.7 million, $2.0 million, $4.3 million and $0.9 million for the same periods, respectively.

Off-Balance Sheet Arrangements

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

Quantitative and Qualitative Disclosures about Market Risk

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

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Interest Rate Risk

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

Inflation Risk

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

New Accounting Pronouncements

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

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

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BUSINESS

Overview

We are a cloud-based provider of payroll and human capital management, or HCM, software solutions for medium-sized organizations, which we define as those having between 20 and 1,000 employees. Our comprehensive and easy-to-use solutions enable our clients to manage their workforces more effectively. As of June 30, 2014, we served approximately 8,500 clients across the U.S., which on average had over 100 employees during each of the last three fiscal years. Our solutions help drive strategic human capital decision-making and improve employee engagement by enhancing the human resource, payroll and finance capabilities of our clients.

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

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

Our solutions provide the following key benefits to our clients:

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

We market and sell our products primarily through our direct sales force. We generate our sales leads through a variety of focused marketing initiatives and referrals from our extensive referral network of 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants. We derive revenue from a client based on the solutions purchased by the client, the number of client employees and the amount, type and timing of services provided in respect of those client employees. Our revenue retention rate was greater than 92% in each of fiscal 2012, 2013 and 2014. Our total revenues increased from $55.1 million in fiscal

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2012 to $77.3 million in fiscal 2013, representing a 40% year-over-year increase and to $108.7 million in fiscal 2014, representing a 41% year-over-year increase. Our recurring revenues increased from $52.5 million in fiscal 2012 to $72.8 million in fiscal 2013, representing a 39% year-over-year increase, and to $101.9 million in fiscal 2014, representing a 40% year-over-year increase. Although we do not have long-term contracts with our clients and our agreements with clients are generally terminable on 60 days' or less notice, our recurring revenue model provides significant visibility into our future operating results.

Industry Background

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

Complex and Ever-Changing Tax and Regulatory Environment

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

Growing Demand for Mobility and Enhanced User Experience

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

Medium-Sized Organizations Face Unique Challenges

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

Large Market Opportunity for Payroll and HCM Solutions

According to market analyses published by International Data Corporation, or IDC, titled *Worldwide and U.S. Human Capital Management Applications 2014-2018 Forecast* (May 2014) and *U.S. Payroll Outsourcing Services 2013-2017 Forecast and Analysis* (October 2013), the U.S. market for HCM applications and payroll outsourcing services is estimated to be $22.6 billion in 2014. The market opportunity is driven by the importance of payroll and HCM solutions to the successful management of organizations.

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To estimate our addressable market, we focus our analysis on the number of U.S. medium-sized organizations and the number of their employees. According to the U.S. Census Bureau, there were over 565,000 firms with 20 to 999 employees in the U.S. in 2010, employing over 40 million persons. We estimate that if clients were to buy our entire suite of existing solutions at list prices, they would spend approximately $220 per employee annually. Based on this analysis, we believe our current target addressable market is approximately $8.8 billion. Our existing clients do not typically buy our entire suite of solutions, and as we continue to expand our product offerings, we believe that we have an opportunity to increase the amount clients spend on payroll and HCM solutions per employee and to expand our addressable market.

Organizations Are Increasingly Transitioning to SaaS Solutions

SaaS solutions are easier and more affordable to implement and operate than those offered by traditional software providers. SaaS solutions also enable software updates with greater frequency and without new hardware investments, enabling organizations to better react to changes in their environments. Many organizations are transitioning to SaaS solutions for front-office business applications such as sales force management. Similarly, we believe organizations are adopting back-office SaaS applications, such as payroll and HCM, with increasing frequency. According to a market analysis published by IDC, titled *Worldwide SaaS and Cloud Software 2014-2018 Forecast and 2013 Vendor Shares* (July 2014), the U.S. SaaS market is estimated to be $26.8 billion in 2014 and is projected to grow at a 17% compound annual growth rate from 2012 to 2017.

Limitations of Existing Solutions

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

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

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

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

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

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

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Our Solution

We are a cloud-based provider of payroll and HCM software solutions for medium-sized organizations. Our solutions enable medium-sized organizations to more efficiently manage payroll and human capital in their complex and dynamic operating environments. As of June 30, 2014, we served approximately 8,500 clients across the U.S., which on average had over 100 employees.

The key benefits of our solution include the following:

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

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

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

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

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

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Our Strategy

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

Grow Our Client Base. We believe that our current client base represents only a small portion of the medium-sized organizations that could benefit from our solutions. While we served approximately 8,500 clients across the U.S. as of June 30, 2014, there were over 565,000 firms with 20 to 999 employees in the United States, employing more than 40 million persons, according to the U.S. Census Bureau in 2010. In order to acquire new clients, we plan to continue to grow our sales organization aggressively across all U.S. geographies.

Expand Our Product Offerings. We believe that our leadership position is in significant part the result of our investment and innovation in our product offerings designed for medium-sized organizations. Therefore, we plan to increase investment in software development to continue to advance our platform and expand our product offerings. For example, we recently introduced new onboarding functionality that enables payroll and HR departments to deliver a highly intuitive, mobile-responsive onboarding experience to new hires.

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

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

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

Our Products

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

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Paylocity Web Pay

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

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

HR Insight and Analytics	Point-in-time reporting, including comparative analysis over multiple periods, allowing users to view data from any time in history Provides a dashboard view into critical HR metrics such as headcount and employee turnover Users can choose between different types of graphical display or export the information to spreadsheets or other documents

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

Paylocity HR

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

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

Occupational Safety & Health Administration (OSHA) tracking

Consolidated Omnibus Budget Reconciliation Act (COBRA) tracking

VETS 100/100A reporting

Workers' compensation tracking and reporting

I-9 verification

Paylocity Impressions

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

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

Performance Management

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

Feature	Functionality
Reviews	Provides the ability for employees and managers to complete online reviews, add comments and sign off on completed reviews
	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

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

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

Paylocity Web Onboarding

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

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

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

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

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

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

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

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

Paylocity Web Time

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

Paylocity Web Benefits and Paylocity Enterprise Benefits

Paylocity Web Benefits and Paylocity Enterprise Benefits (powered by bswift) are benefit management solutions that integrate with insurance carrier systems to provide automated administrative processes and allows users to choose benefit elections and make life event changes online, summarize benefit elections and perform other similar benefit-related tasks. These solutions also enable premium reconciliation, management of voluntary benefits and advanced reporting. Both Web Benefits and Paylocity Enterprise Benefits integrate seamlessly with Paylocity's Web Pay. Web Benefits features include:

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

Automated employee deductions updates in Web Pay

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

Reporting on employee enrollment status and enrollment summary

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

Electronic Data Interchange (EDI) support for insurance carriers

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

Implementation and Client Services

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

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Implementation and Training Services

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

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

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

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

Client Service

Our client service model is designed to serve the needs of medium-sized organizations and to build loyalty by developing strong relationships with our clients. We strive to achieve high revenue retention, in part, by delivering high-quality service. Our revenue retention was greater than 92% in each of fiscal 2012, 2013 and 2014.

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

Tax and Regulatory Services

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

Clients

As of June 30, 2014, we provided our solutions to approximately 8,500 clients in all U.S. states. Although many clients have multiple divisions, segments or locations, we only count such clients once for these purposes.

Our clients include for-profit and non-profit organizations across industries including business services, financial services, healthcare, manufacturing, restaurants, retail, technology and others. For each of fiscal 2012, 2013 and 2014, no client accounted for more than 1% of our revenues.

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Sales and Marketing

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

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

Referral Network

As a core element of our business strategy, we have developed a referral network of third-party service providers, including 401(k) advisors, benefits administrators, insurance brokers, third-party administrators and HR consultants, that recommend our solutions and provide referrals. Our referral network has become an increasingly important component of our sales process, and in fiscal 2014, approximately 25% of our new client revenue originated by referrals from participants in our referral network.

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

Partner Ecosystem

We have developed a partner ecosystem of third-party systems, such as 401(k), benefits and insurance provider systems, with whom we provide automated data integration for our clients. These third-party providers require certain financial information from their clients in order to efficiently provide their respective services. After securing authorization from the client, we exchange payroll 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.

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Technology

We offer our solutions on a cloud-based platform that leverages a unified database architecture and a common code base that we have 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;

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- 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 $5.5 million, $8.8 million and $15.0 million for fiscal 2012, 2013 and 2014, respectively, and $5.1 million for the three months ended September 30, 2014. 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 September 30, 2014, our corporate headquarters occupied approximately 117,000 square feet in Arlington Heights, Illinois under a lease expiring in August 2020. As of September 30, 2014, we also leased facilities in New York, New York, Lake Mary, Florida, Nashua, New Hampshire and Oakland, California.

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Employees

As of September 30, 2014, we had approximately 1,059 full-time employees, of which 339 were in client services and operations, 266 were in client implementation, 138 were in research and development, 228 were in sales and marketing and 88 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 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.

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MANAGEMENT

Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors, including their ages.

Name	Age	Position
Executive Officers		
Steven R. Beauchamp	42	President, Chief Executive Officer and Director
Steven I. Sarowitz(3)	49	Chairman and Director
Peter J. McGrail	55	Chief Financial Officer
Michael R. Haske	42	Senior Vice President of Sales & Marketing
Edward W. Gaty	41	Senior Vice President of Product Development
Jenifer L. Page	42	Senior Vice President of Operations
Non-Management Directors		
Jeffrey T. Diehl(1)(2)(3)	44	Director
Mark H. Mishler(1)(2)(3)	56	Director
Andres D. Reiner	44	Director
Ronald V. Waters, III(1)(2)	62	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 Chairman. Mr. Sarowitz is currently the Chief Executive Officer of Blue Marble Payroll, an international payroll aggregator. 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 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

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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 Q2 Holdings, Inc., a virtual banking solutions company, and 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, or INC, a service contract and extended warranty program provider, and in April 2014 Mr. Mishler was elected Chairman of INC. From 2002 to 2010, Mr. Mishler served as President, Chief Operating Officer and as a Director of The Warranty Group, a warranty service contract provider. 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 brings to our board of directors significant finance experience derived primarily from his previous service as a controller and chief financial officer.

Andres D. Reiner has served as a Director since September 2014. Since 2010, Mr. Reiner has served as the President and Chief Executive Officer and a director of PROS Holdings, Inc., or

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PROS, an enterprise software company. Since 1999, and prior to his appointment as President and Chief Executive Officer, Mr. Reiner held a series of positions with PROS, including Senior Vice President of Product Development and Executive Vice President of Product and Marketing. Prior to joining PROS, Mr. Reiner held various technical and management positions in technology companies including Platinum Technology, ADAC Healthcare Information Systems, and Kinesix. Mr. Reiner holds a B.S. in Computer Science with a minor in Mathematics from the University of Houston. Mr. Reiner brings to our board of directors leadership experience through his role as President and Chief Executive Officer of PROS, as well as in-depth knowledge and experience at growing technology companies.

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 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 six members. In accordance with our amended and restated certificate of incorporation and our amended and restated bylaws, our board of directors is divided into three classes with staggered three-year terms. At each annual meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Vacancies on our board of directors can be filled by a majority vote of the board of directors.

The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change of control. Messrs. Sarowitz and Diehl are the Class I directors, and their terms will expire in fiscal 2018. Messrs. Mishler and Waters are the Class II directors, and their terms will expire in fiscal 2016. Messrs. Beauchamp and Reiner are the Class III directors, and their terms will expire in fiscal 2017.

Director Independence

Our common stock is 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, Andres D. Reiner 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 and August 2014, 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, Reiner or Waters, representing four of our six 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 and compensation committee, Mr. Mishler, who serves on our audit committee, compensation committee and nominating and corporate governance 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 have the composition

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and responsibilities described below. 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.

The composition of our audit committee complies with all applicable requirements of the SEC and the listing requirements of the NASDAQ Global Select Market and all members of our audit committee are independent directors.

Our board of directors has adopted an audit committee charter. We believe that the composition of our audit committee, and our audit committee's charter and functioning, complies 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 Waters. Mr. Mishler is the chairman of our compensation committee. Each of Messrs. Mishler, Diehl and Waters 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;

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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.

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 all members of our compensation committee are independent directors.

Our board of directors has adopted a compensation committee charter. We believe that the composition of our compensation committee, and our compensation committee's charter and functioning, 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, Mishler and Diehl. Mr. Sarowitz is the chairman of our nominating and corporate governance committee. Each of Messrs. Mishler and 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.

The composition of our nominating and corporate governance committee complies 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 rely, all members of our nominating and corporate governance committee will be independent directors.

Our board of directors has adopted a nominating and corporate governance committee charter. We believe that the composition of our nominating and corporate governance committee, and our nominating and corporate governance committee's charter and functioning, complies 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 fiscal 2014. During fiscal 2014, Mr. Sarowitz, our Chairman, and Mr. Diehl, an affiliate of Adams Street Partners, were members of our compensation committee. See "Certain Relationships and Related Party

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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 applies to all of our employees, officers and directors. The full text of our code of conduct is posted on the Investor Relations section of our website. 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.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table presents compensation information for fiscal 2013 and fiscal 2014 paid to, or earned by, our principal executive officer and our two other most highly compensated executive officers for the fiscal years ended June 30, 2013 and 2014. We refer to these executive officers as our "named executive officers".

Name	Year	Salary	Option Awards(2)	Bonuses(3)	All Other Compensation(4)	Total
Steven R. Beauchamp, President and Chief Executive Officer	2014	$ 425,863	$ 127,003	$ 102,226	$ 22,633	$ 677,725
	2013	421,531	607,500	25,639	28,386	1,083,056
Steven I. Sarowitz, Executive Chairman(1)	2014	275,000		126	18,483	293,609(5)
	2013	304,888		100,117	25,930	430,935(5)
Michael R. Haske, Senior Vice President of Sales & Marketing	2014	259,023	127,003	203,236(6)	22,503	611,765
	2013	254,147	364,500	177,640(6)	22,643	818,930

(1) The status of Mr. Sarowitz on the board of directors changed from executive chairman to chairman effective June 30, 2014. Mr. Sarowitz no longer has an employment relationship with the Company, nor does he receive any compensation in such capacity.

(2) Amounts represent the aggregate grant date fair value of stock options granted during the year computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. Assumptions used in calculating these options reported in this column are set forth in Note 15 to our consolidated financial statements included elsewhere in this prospectus.

(3) Includes discretionary annual bonus payouts determined by our compensation committee. Our management team establishes an annual business plan for the company which is approved by our board of directors. 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.

(4) Consists of premiums paid for medical, dental, short-term disability, long term disability, life and accidental death and dismemberment insurance, Health Savings Account contributions, 401(k) 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.

(6) Also includes a monthly bonus based on the prior month's commissionable sales.

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Outstanding Equity Awards at June 30, 2014

The following table sets forth information regarding outstanding equity awards held by our named executive officers at June 30, 2014.

Name	Number of Securities Underlying Unexercised Options Exercisable(1)	Number of Securities Underlying Unexercised Options Unexercisable(1)	Option Exercise Price	Option Expiration Date
Steven R. Beauchamp	125,000(2)	375,000(2)	$ 4.88	8/21/2022
		16,667(3)	$ 17.00	3/18/2024
Steven I. Sarowitz				
Michael R. Haske	75,000(2)	225,000(2)	$ 4.88	8/21/2022
		16,667(3)	$ 17.00	3/18/2024

(1) Shares of common stock.

(2) This option grant vests as to $^{1}/_{4}$ of the total option grant on July 1, 2013, and thereafter as to $^{1}/_{4}$ of the total option grant yearly.

(3) This option grant vests as to $^{1}/_{3}$ of the total option grant on March 24, 2015, and thereafter as to $^{1}/_{3}$ of the total option grant yearly.

Employment Agreements

The following is a summary of the employment agreements with our named executive officers.

Steven R. Beauchamp is party to an amended and restated employment agreement with us effective February 7, 2014. This employment agreement has no specific term and constitutes at-will employment. Mr. Beauchamp's current annual base salary is $450,000. Mr. Beauchamp is also eligible to receive benefits that are substantially similar to those of our other employees. His employment agreement sets forth his target bonus, which is currently set at 70% of Mr. Beauchamp's base salary. Payment of any bonus to Mr. Beauchamp is subject to approval by the compensation committee of our board of directors.

Pursuant to this agreement, in the event Mr. Beauchamp is terminated for any reason (other than for cause (as such term is defined in the employment agreement), as a result of his death or his inability to perform the essential functions of his position with or without reasonable accommodation), (i) we will be obligated to pay him 100% of his then-current monthly base salary for 12 months and (ii) 100% of his then-unvested shares subject to any equity grants issued by the company will become vested in full. These severance benefits are contingent on Mr. Beauchamp executing a general release of claims. In addition, pursuant to his employment agreement, Mr. Beauchamp has agreed (i) not to solicit our employees or customers during employment and for a period of 12 months after the termination of employment, (ii) not to compete with us or assist any other person to compete with us during employment and a period of 12 months after the termination of employment and (iii) to protect our confidential and proprietary information and to assign to us intellectual property developed during the course of employment.

Steven I. Sarowitz was party to an employment agreement with us dated July 1, 2013. This employment agreement had no specific term and constituted at-will employment. At the date of his resignation, Mr. Sarowitz's annual base salary was $275,000. Mr. Sarowitz was also eligible to receive benefits that are substantially similar to those of our other employees.

Pursuant to this agreement, in the event Mr. Sarowitz's employment is terminated for any reason (other than for cause (as such term is defined in the employment agreement)), we would have been 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 participated 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 were contingent on Mr. Sarowitz executing a general release of claims. In addition, pursuant to his employment agreement, Mr. Sarowitz agreed (i) not to solicit our employees or customers during employment and for a period of 12 months after the termination of employment, (ii) not to compete with us or assist any other person to compete with us during employment and a period of 12 months after the termination of employment and (iii) to protect our confidential and proprietary information and to assign to us intellectual property developed during the course of employment.

Mr. Sarowitz's employment agreement terminated effective June 30, 2014, in accordance with that certain Memorandum of Understanding by and among the Company, Paylocity Corporation, Blue Marble Payroll, LLC and Mr. Sarowitz, whereby Mr. Sarowitz resigned as Executive Chairman. Pursuant to the Memorandum of Understanding, for so long as Mr. Sarowitz continues to provide services to us as a member of our board of directors, we pay Mr. Sarowitz and his dependents insurance on the same terms made available to our employees generally.

Michael R. Haske is party to an amended and restated employment agreement with us effective February 7, 2014. This employment agreement has no specific term and constitutes at-will employment. Mr. Haske's current annual base salary is $320,000. Mr. Haske is also eligible to receive a monthly bonus based on the prior month's commissionable sales by all sales personnel as well as benefits that are substantially similar to those of our other employees. His employment agreement sets forth his target bonus, which is currently set at 50% of Mr. Haske's current base salary. Payment of any bonus to Mr. Haske is subject to approval by the compensation committee of our board of directors.

Pursuant to this agreement, in the event Mr. Haske is terminated for any reason (other than for cause (as such term is defined in the employment agreement), as a result of his death or his inability to perform the essential functions of his position with or without reasonable accommodation), (i) we will be obligated to pay him 100% of his then current monthly base salary for twelve months and (ii) 100% of his then unvested shares subject to any equity grants issued by the Company will become vested in full. These severance benefits are contingent on Mr. Haske executing a general release of claims. In addition, pursuant to his employment agreement, Mr. Haske has agreed (i) not to solicit our employees or customers during employment and for a period of 12 months after the termination of employment, (ii) not to compete with us or assist any other person to compete with us during employment and a period of 12 months after the termination of employment and (iii) to protect our confidential and proprietary information and to assign to us intellectual property developed during the course of employment.

Director Compensation

In connection with our initial public offering, in November 2013, our board of directors adopted a cash compensation package for Messrs. Mishler and Waters. Messrs. Mishler and Waters were each entitled to receive a $20,000 annual retainer fee for service on our board of directors. Mr. Waters was also entitled to receive an annual fee of $30,000 as compensation for his service as audit committee chairman. Mr. Mishler was entitled to 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. In March, 2014, our board of directors approved the grant of 6,666 restricted stock units to each of Messrs. Mishler and Waters. These restricted stock units vested $^1/_3$ upon the closing of the initial public offering, $^1/_3$ upon the first anniversary of the offering and $^1/_3$ upon the second anniversary of the offering.

In September 2014, we implemented a director compensation package, pursuant to which our directors are eligible to receive equity awards and cash retainers as compensation for service on our board of directors and committees of our board of directors. Under our director compensation package, our directors are entitled to receive a $30,000 annual retainer fee. The audit committee chairperson receives an annual fee of $20,000 and members of the audit committee receive an annual fee of $10,000. The compensation committee chairperson receives an annual fee of $15,000 and members of the compensation committee receive an annual fee of $7,500. The nominating and corporate governance committee chairperson receives an annual fee of $10,000 and the members of the nominating and corporate governance committee receive an annual fee of $5,000. In August 2014 (and September 2014 in the case of Mr. Reiner), our board of directors approved a restricted stock unit grant entitling each director to receive that number of shares of our common stock equal to $150,000 divided by the then current share price of our common stock. These grants vest 25% quarterly, such that the grant vests in full on the first anniversary of the grant, provided that the director continues to serve as a director through such vesting date.

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 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 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 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 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 may discourage stockholders from bringing a lawsuit against our

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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 September 30, 2014, options to purchase 2,337,219 shares of our common stock were outstanding and zero shares of our common stock were reserved for future grant under this plan. As of September 30, 2014, in addition to incentive stock options and nonqualified stock options, we issued 269,199 shares of restricted common stock under this plan.

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

The standard form of option agreement under the 2008 Equity Incentive Plan provides that options will vest 25% on the first anniversary of the vesting commencement date, with the remainder vesting in equal annual installments over the next three years, subject to continued service through each applicable vesting date. Under our 2008 Equity Incentive Plan, our board of directors has the authority to provide for accelerated vesting in connection with a change in control, as defined in the 2008 Equity Incentive Plan. In the event of a change in control, our board of directors may require the substitution of outstanding equity awards for similar rights in the acquiring entity. In the alternative, our board of directors may provide that all outstanding options be canceled

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in exchange for an amount per option share equal to the greater of (i) the highest per share price offered to the holders of our common stock in the change in control minus the exercise price per option share or (ii) the fair market value of a share of our common stock on the date of the change in control minus the exercise price per option share. In the case of outstanding shares of restricted stock or restricted stock units, our board of directors may provide that such shares or units be canceled in exchange for an amount per share or unit equal to the greater of (i) the highest per share price offered to the holders of our common stock in the change in control or (ii) the fair market value of a share of our common stock on the date of the change in control.

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

2014 Equity Incentive Plan

Our 2014 Equity Incentive Plan was approved by our board of directors and our stockholders in February 2014. It is intended to make available incentives that will assist us to attract, retain and motivate employees (including officers), consultants and directors. We have thus far provided these incentives through the grant of stock options and restricted stock units and may in the future provide these incentives through stock appreciation rights, restricted stock, performance shares and units and other cash-based or stock-based awards.

As of September 30, 2014, options to purchase 2,263,211 shares of common stock were outstanding and 479,594 shares of common stock were reserved for future grant under the 2014 Equity Incentive Plan. This reserve will automatically increase on January 1, 2015 and each subsequent anniversary through 2024, by an amount equal to the smaller of (a) 4.5% of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by our board of directors. The 2014 Equity Incentive Plan provides that the maximum aggregate number of shares of our common stock that may be issued under the 2014 Equity Incentive Plan pursuant to the exercise of incentive stock options shall not exceed 4,701,518 shares. The limit on the issuance of shares of our common stock pursuant to the exercise of incentive stock options will automatically increase on January 1, 2015 and each subsequent anniversary through 2024, by an amount equal to the smaller of (a) the annual increase to the share reserve in the 2014 Equity Incentive Plan or (b) 5,000,000 shares.

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

The 2014 Equity Incentive Plan is generally administered by the compensation committee of our board of directors. Subject to the provisions of the 2014 Equity Incentive Plan, the

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

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

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

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

Stock appreciation rights. A stock appreciation right gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to receive the appreciation in the fair market value of our common stock between the date of grant of the award and the date of its exercise. We may pay the appreciation in shares of our common stock or in cash, except that a stock appreciation right granted in tandem with a related option is payable only in stock.

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

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

Performance shares and performance units. Performance shares and performance units are awards that will result in a payment to their holder only if specified performance goals are achieved during a specified performance period. Performance share awards are rights denominated in shares of our common stock, while performance unit awards are rights

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

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

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

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

2014 Employee Stock Purchase Plan

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

As of September 30, 2014, a total of 1,000,000 shares of our common stock were 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:

400,000 shares;

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- 0.75% of the issued and outstanding shares of our common stock on the immediately preceding December 31; or

- such other amount as may be determined by our board of directors.

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

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

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

- immediately after the grant would own stock or options to purchase stock possessing 5.0% or more of the total combined voting power or value of all classes of our capital stock; or

- holds rights to purchase stock under all of our employee stock purchase plans that would accrue at a rate that exceeds $25,000 worth of our stock for each calendar year in which the right to be granted would be outstanding at any time.

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

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

Amounts deducted and accumulated from participant compensation are used to purchase shares of our common stock at the end of each offering period. Unless otherwise provided by the administrator, the purchase price of the shares will be 85% of the lower of the fair market value of our common stock on the first trading day of the offering period or on the purchase date provided that no more than the lesser of (i) an amount equal to $2,083.33 multiplied by the number of months in the offering period (rounded to the nearest whole month) or (ii) 166 shares multiplied by the number of months in the offering period (rounded to the nearest whole month) may be purchased by any participant in any offering period. Participants may end their participation at any time during an offering period and will receive a refund of their account balances not yet used to purchase shares. Participation ends automatically upon termination of employment with us.

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

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

401(k) Plan

We maintain a 401(k) plan with a safe harbor matching provision that covers all eligible employees. We match 50% of the employees' contributions up to 6% of their gross pay. Contributions were $514,000, $720,000 and $1,122,000 fiscal 2012, 2013 and 2014, respectively.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since June 30, 2011, there has not been any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded $120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had a direct or indirect material interest, other than compensation arrangements with directors and executive officers, which are described where required in the sections titled "Management" and "Executive Compensation" and the transactions described below.

Distribution of Shares Held by Paylocity Management Holdings, LLC

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

Name of Stockholder	Shares of Common Stock Received
Steven I. Sarowitz	23,449,265
Steven R. Beauchamp	2,991,544
Michael R. Haske	1,503,458
Jenifer L. Page	525,749
Total	28,470,016

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

Series B Preferred Stock Financing

In June 2012, Paylocity Corporation issued 8,399,899 shares of Series B preferred stock to a total of eight accredited investors at a price of $3.2481 per share or an aggregate purchase price of $27,283,712. Our Series B preferred stock will convert automatically into two shares of common stock for every three shares of Series B preferred stock held 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.

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Common Stock Redemption

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

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

Name of Stockholder	Shares of Common Stock		Total Redemption Price
Steven I. Sarowitz	4,515,460	$	22,000,002
Steven R. Beauchamp	533,645		2,600,000
Michael R. Haske	256,666		1,250,519
Jenifer L. Page	131,814		642,221
Peter J. McGrail	49,465		241,003
Total	5,487,050	$	26,733,745

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 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

In June 2012 we 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;

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Obligated 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

Granted 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." Certain provisions of this agreement terminated upon completion of our initial public 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

In June 2012 we 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 provided, 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 terminated upon completion of our initial public 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

In June 2012 we 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, granted our investors certain rights of first refusal and co-sale with respect to proposed transfers of our securities by certain stockholders and granted us certain rights of first refusal with respect to proposed transfers of our securities by certain stockholders. This agreement terminated upon completion of our initial public 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, our chairman and a holder of more than 5% of a class of our voting securities, pursuant to which Elite generated leads for our sales force. Elite was paid per lead generated. We paid Elite $231,000 in fiscal 2014. We terminated our oral agreement with Elite in October 2013 and, in connection therewith, hired substantially all of the employees of Elite.

We were party to a loan and security agreement with Commerce Bank & Trust Company. Steven I. Sarowitz, our chairman and a holder of more than 5% of a class of our voting securities, was a guarantor of certain of our obligations under the loan and security agreement. The Company terminated the loan and security agreement on March 31, 2014.

In May 2014, Steven I. Sarowitz, our chairman and a holder of more than 5% of a class of our voting securities, paid $1,052,000 to us for the express purpose of paying a cash bonus to long-term employees in recognition of their past service. We recorded a capital contribution to additional paid-in capital for the amount received from Mr. Sarowitz and compensation expense for the amount paid to employees, accordingly. We paid the employer portion of employment taxes and will receive any income tax related benefits from the payments to employees and resulting taxes.

In June 2014, we entered into a Memorandum of Understanding, or Memorandum, with our chairman Steven I. Sarowitz and Blue Marble Payroll, LLC, or Blue Marble, a separate legal entity owned by Mr. Sarowitz. Pursuant to the terms of the Memorandum, Mr. Sarowitz is entitled to devote his efforts to Blue Marble provided that such efforts do not interfere with his ability to fulfill his duties as our chairman. Mr. Sarowitz and Blue Marble each also agreed not to compete with us in the United States of America and not to solicit our employees. In the event that we enter a geographic market in which Mr. Sarowitz or Blue Marble has clients, we have an option to acquire Mr. Sarowitz' or Blue Marble's (as the case may be) operations in such market at fair market value. At our option, Mr. Sarowitz and Blue Marble will permit us to become a partner of Blue Marble in any international market that Mr. Sarowitz or Blue Marble enters, on terms no less favorable than those offered by Mr. Sarowitz or Blue Marble to its other partners in that market. Pursuant to the terms of the Memorandum, in the event of a sale of a material portion of the business or capital stock of Blue Marble, we have a right of first refusal to buy Blue Marble. Beginning on the third anniversary of the Memorandum, we also have an ongoing option to acquire Blue Marble at fair market value.

Policies and Procedures for Related Party Transactions

As provided by our audit committee charter, our audit committee must review and approve in advance any related party transaction. Pursuant to our Related Party Transactions Policy, 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.

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PRINCIPAL AND SELLING STOCKHOLDERS

The following table and footnotes set forth information with respect to the beneficial ownership of our common stock as of November 15, 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 November 15, 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 November 15, 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 49,673,840 shares of common stock outstanding as of November 15, 2014.

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,

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Arlington Heights, IL 60004. Beneficial ownership representing less than 1% is denoted with an asterisk (*).

Name of Beneficial Owner	Shares Beneficially Owned Prior to the Offering: Shares	Shares Beneficially Owned Prior to the Offering: Percentage	Number of Shares Offered	Shares Beneficially Owned After the Offering: Shares	Shares Beneficially Owned After the Offering: Percentage	Number of Shares to be Sold if Underwriters' Option is Exercised in Full	Shares Beneficially Owned After the Offering if Underwriters' Option is Exercised in Full: Shares	Shares Beneficially Owned After the Offering if Underwriters' Option is Exercised in Full: Percentage
5% Stockholders:								
Entities affiliated with Adams Street Partners(1)	12,082,167	24.4%	1,058,283	11,023,884	21.9%	195,375	10,828,509	21.5%
Named Executive Officers and Directors:								
Jeffrey T. Diehl(1)	12,082,167	24.4%	1,058,283	11,023,884	21.9%	195,375	10,828,509	21.5%
Steven I. Sarowitz(2)	21,784,111	43.9%	1,908,081	19,876,030	39.4%	352,261	19,523,769	38.7%
Steven R. Beauchamp(3)	3,241,544	6.5%	244,805	2,996,739	5.9%	45,195	2,951,544	5.8%
Michael R. Haske(4)	1,877,791	3.8%	8,442	1,869,349	3.7%	1,558	1,867,791	3.7%
Mark H. Mishler(5)	14,334	*		14,334	*		14,334	*
Andres D. Reiner(6)	1,503	*		1,503	*		1,503	*
Ronald V. Waters, III(7)	13,734	*		13,734	*		13,734	*
All executive officers and directors as a group (10 persons)(8)	40,228,833	79.3%	3,250,000	36,978,833	71.8%	600,000	36,378,833	70.6%
Other Selling Stockholders:								
Peter J. McGrail(9)	644,409	1.3%	30,389	614,020	1.2%	5,611	608,409	1.2%

(1) Represents 1,512 shares issuable to Jeffrey T. Diehl upon the vesting of restricted stock units within 60 days of November 15, 2014, 2,338,163 shares held by Adams Street 2006 Direct Fund, L.P., or AS 2006, 2,640,431 shares held by Adams Street 2007 Direct Fund, L.P., or AS 2007, 3,776,071 shares held by Adams Street 2008 Direct Fund, L.P., or AS 2008, 782,722 shares held by Adams Street 2009 Direct Fund, L.P., or AS 2009, 444,629 shares held by Adams Street 2010 Direct Fund, L.P., or AS 2010, 357,215 shares held by Adams Street 2011 Direct Fund LP, or AS 2011, 358,486 shares held by Adams Street 2012 Direct Fund LP, or AS 2012 and 1,382,938 shares of common 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."

(2)

Includes 1,512 shares issuable upon vesting of restricted stock units within 60 days of November 15, 2014. On November 20, 2014, Mr. Sarowitz transferred 740,740 shares to the Julian Grace Foundation. Mr. Sarowitz is currently our Chairman and resigned as our Executive Chairman effective June 30, 2014. For a discussion of our material relationships with Mr. Sarowitz, see the section entitled "Certain Relationships and Related Party Transactions."

(3)

Includes 250,000 shares issuable upon the exercise of options exercisable within 60 days of November 15, 2014. Mr. Beauchamp is our President and Chief Executive Officer and is a director. For a discussion of our material relationships with Mr. Beauchamp, see the section titled "Certain Relationships and Related Party Transactions."

(4)

Includes 150,000 shares issuable upon the exercise of options exercisable within 60 days of November 15, 2014. Mr. Haske is our Senior Vice President of Sales & Marketing. For a discussion of our material relationships with Mr. Haske, see the section titled "Certain Relationships and Related Party Transactions."

(5)

Includes 1,512 shares issuable upon the vesting of restricted stock units within 60 days of November 15, 2014. Mr. Mishler is a member of our board of directors.

(6)

Includes shares issuable upon the vesting of restricted stock units within 60 days of November 15, 2014. Mr. Reiner is a member of our board of directors.

(7)

Includes 1,512 shares issuable upon the vesting of restricted stock units within 60 days of November 15, 2014. Mr. Waters is a member of our board of directors.

(8)

Includes 1,077,225 shares issuable upon the exercise of options exercisable and 7,551 shares issuable upon the vesting of restricted stock units, in each case within 60 days of November 15, 2014.

(9)

Includes 608,058 shares issuable upon the exercise of stock options exerciseable within 60 days of November 15, 2014. Mr. McGrail is our Chief Financial Officer. For a discussion of our material relationships with Mr. McGrail, see the section titled "Certain Relationships and Related Party Transactions."

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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. 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.

Our authorized capital stock consists of 155,000,000 shares of common stock, $0.001 par value, and 5,000,000 shares of undesignated preferred stock, $0.001 par value.

Common Stock

As of September 30, 2014, there were 49,577,236 shares of common stock outstanding that were held of record by 16 stockholders.

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

Pursuant to our amended and restated certificate of incorporation, our board of directors has the authority, without further action by the stockholders, to issue from time to time up to 5,000,000 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

In June 2012 we entered into an amended and restated investor rights agreement with certain holders of our common stock. Subject to the terms of this agreement, holders of 12,080,655 shares of our common stock have full registration rights, which includes demand registration rights, piggyback registration rights, and short-form registration rights. Furthermore, holders of 29,105,888 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.

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Demand Registration Rights

At any time following our initial public offering, subject to certain exceptions, the holders of not less than 50% of then outstanding registrable securities 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 our initial public 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 41,186,543 shares of common stock 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 our initial public 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.

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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 acquirer 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. Our amended and restated certificate of incorporation provides that our stockholders may not act by written consent. This limit on the ability of our stockholders to act by written consent may lengthen the amount of time required to take stockholder actions. As a result, a holder controlling a majority of our capital stock would not be able to amend our amended and restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws.

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

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

Classified Board. Our amended and restated certificate of incorporation and amended and restated bylaws provide that our board of directors is divided into three classes with staggered

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

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

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

Directors Removed Only for Cause. Our amended and restated certificate of incorporation provides for the removal of a director only with cause and by the affirmative vote of the holders of at least $66^2/_3\%$ 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.

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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

Our common stock is listed on the NASDAQ Global Select Market under the symbol "PCTY."

SHARES ELIGIBLE FOR FUTURE SALE

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 50,327,236 shares of common stock, assuming no exercise of the underwriters' option to purchase additional shares and no exercise of outstanding options. Of these shares, (i) the 8,101,750 shares issued in our initial public offering are freely tradable without restriction or further registration under the Securities Act and (ii) 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 41,475,486 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:

2,342,104 shares will be eligible for sale upon completion of this offering;

35,913,771 shares will be eligible for sale upon the expiration of the lock-up agreements, described below, beginning 90 days after the date of this prospectus; and

353,079 shares will be eligible for sale upon the exercise of vested options upon completion of this offering and 1,077,225 shares will be eligible for sale upon the exercise of vested options 90 days after the date of this prospectus.

Lock-Up Agreements and Obligations

In connection with this offering, we and all of our executive officers, directors and the selling stockholders have signed lock-up agreements under which we and they 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 90 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, which in the case of officers and directors, shall be with notice.

10b5-1 Plans

Certain of our employees, including certain of our executive officers, have entered into written trading plans that are intended to comply with Rule 10b5-1 under the Exchange Act. These plans permit the automatic trading of our common stock by an independent person (such as a stock broker) who is not aware of material, nonpublic information at the time of the trade and generally provide for sales to occur from time to time.

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Rule 144

In general, under Rule 144 as currently in effect, 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, 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, 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 503,272 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 without complying with the holding period requirement of Rule 144 and that non-affiliates may sell such shares in reliance on Rule 144 without complying with the holding period, public information, volume limitation or notice requirements of Rule 144.

Registration Rights

The holders of an aggregate of 41,186,543 shares of our common stock, or their transferees, are 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

We filed a registration statement 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 are available for resale in the public market immediately upon the effectiveness of the registration statement, except with respect to Rule 144 volume limitations that apply to our affiliates.

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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.

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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

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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.

Legislation Relating to Foreign Accounts

The Foreign Account Tax Compliance Act, or FATCA, 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

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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). FATCA 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 FATCA on their investment in our common stock.

These withholding requirements apply for payments of dividends made on or after July 1, 2014 and are expected to be phased-in 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.

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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	4,000,000

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. After the initial 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 public offering price. We have agreed to pay the underwriters the following discounts and commissions, assuming either no

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exercise or full exercise by the underwriters of the underwriters' option to purchase additional shares:

	Per share	Total Fees Without Exercise of Option to Purchase Additional Shares	Total Fees 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 $483,000, including an amount not to exceed $15,000 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

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 600,000 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. 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. The selling stockholders 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

We, all of our executive officers, directors and selling stockholders have agreed that for a period of 90 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 90-day period. See the section titled "Shares Eligible for Future Sale" for a discussion of transfer restrictions.

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.

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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 underwriters' option to purchase additional shares. 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 NASDAQ Global Select Market, in the over-the-counter market or otherwise.

Listing

Our common stock is listed on the NASDAQ Global Select Market, under the symbol "PCTY."

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

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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

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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;

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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.

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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.

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LEGAL MATTERS

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

EXPERTS

Our consolidated financial statements as of June 30, 2013 and 2014, and for each of the years in the three-year period ended June 30, 2014, 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.

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and we 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.

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PAYLOCITY HOLDING CORPORATION

Index to Consolidated Financial Statements

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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, 2013 and 2014, and the related consolidated statements of operations, changes in redeemable convertible stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended June 30, 2014. 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 statements 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, 2013 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Chicago, Illinois
August 22, 2014

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PAYLOCITY HOLDING CORPORATION

Consolidated Balance Sheets

(in thousands, except share and per share data)

	As of June 30,	
Assets	**2013**	**2014**
Current assets:		
Cash and cash equivalents	$ 7,594	$ 78,848
Accounts receivable, net	740	756
Prepaid expenses and other	1,875	2,694
Deferred income tax assets, net	602	706
Total current assets before funds held for clients	10,811	83,004
Funds held for clients	355,905	417,261
Total current assets	366,716	500,265
Long-term prepaid expenses		313
Capitalized software, net	2,614	5,093
Property and equipment, net	8,586	13,125
Intangible assets, net		6,320
Goodwill		3,035
Total assets	$ 377,916	$ 528,151
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities:		
Current portion of long-term debt	$ 625	$
Accounts payable	880	2,133
Taxes payable	207	5
Consideration related to acquisition		2,985
Accrued expenses	6,794	10,744
Total current liabilities before client fund obligations	8,506	15,867
Client fund obligations	355,905	417,261
Total current liabilities	364,411	433,128
Long-term debt, net of current portion	938	
Deferred rent	2,317	3,175

Deferred income tax liabilities, net		269		714
Total liabilities	$	367,935	$	437,017
Redeemable convertible preferred stock, $0.001 par value, 18,000 authorized as of June 30, 2013 and no shares authorized as of June 30, 2014				
Series A, 6% cumulative dividend, 9,500 shares issued and outstanding at June 30, 2013 and no shares issued and outstanding at June 30, 2014	$	9,339	$	
Series B, 8% cumulative dividend, 8,400 shares issued and outstanding at June 30, 2013 and no shares issued and outstanding at June 30, 2014		27,234		
Stockholders' equity (deficit)				
Common stock, $0.001 par value, 66,667 shares authorized, 31,988 shares issued and outstanding at June 30, 2013; and 155,000 shares authorized, 49,564 shares issued and outstanding at June 30, 2014		32		50
Preferred stock, $0.001 par value, no shares authorized, issued and outstanding at June 30, 2013 and 5,000 authorized, no shares issued and outstanding at June 30, 2014				
Additional paid-in capital		437		125,255
Accumulated deficit		(27,061)		(34,171)
Total stockholders' equity (deficit)		(26,592)	$	91,134
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	$	377,916	$	528,151

See accompanying notes to consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Consolidated Statements of Operations

(in thousands, except share and per share data)

	For the Years Ended June 30, 2012	2013	2014
Revenues:			
Recurring fees	$ 51,211	$ 71,309	$ 100,362
Interest income on funds held for clients	1,263	1,459	1,582
Total recurring revenues	52,474	72,768	101,944
Implementation services and other	2,622	4,526	6,743
Total revenues	55,096	77,294	108,687
Cost of revenues:			
Recurring revenues	22,054	28,863	37,319
Implementation services and other	7,040	10,803	17,775
Total cost of revenues	29,094	39,666	55,094
Gross profit	26,002	37,628	53,593
Operating expenses:			
Sales and marketing	12,828	18,693	28,276
Research and development	1,788	6,825	10,355
General and administrative	8,618	12,079	21,980
Total operating expenses	23,234	37,597	60,611
Operating income (loss)	2,768	31	(7,018)
Other income (expense)	(196)	(16)	163
Income (loss) before income taxes	2,572	15	(6,855)
Income tax (benefit) expense	884	(602)	255
Net income (loss)	$ 1,688	$ 617	$ (7,110)
Net income (loss) attributable to common stockholders	$ 998	$ (2,291)	$ (9,392)

Net income (loss) per share attributable to common stockholders:			
Basic	$ 0.02	$ (0.07)	$ (0.26)
Diluted	$ 0.02	$ (0.07)	$ (0.26)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:			
Basic	43,873	31,988	36,707
Diluted	44,317	31,988	36,707

See accompanying notes to consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

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

(in thousands)

	Redeemable Convertible Preferred Stock				Stockholders' Equity (Deficit)				
	Preferred Series A		Preferred Series B		Common Stock				Total
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity (Deficit)
Balances at June 30, 2011	9,500	$ 9,339		$	37,539	$ 38	$ 4,304	$ (6,596)	$ (2,254)
Stock-based compensation expense							203		203
Stock options exercised					67		88		88
Issuance of Preferred Series B Shares			8,400	27,234					
Redemption of Common Stock					(5,618)	(6)	(4,595)	(22,770)	(27,371)
Net income								1,688	1,688
Balances at June 30, 2012	9,500	9,339	8,400	27,234	31,988	32		(27,678)	(27,646)
Stock-based compensation expense							523		523
Stock options exercised					33		76		76
Redemption of Common Stock					(33)		(162)		(162)
Net income								617	617
Balances at June 30, 2013	9,500	$ 9,339	8,400	$ 27,234	31,988	$ 32	$ 437	$ (27,061)	$ (26,592)
Initial public offering, net of issuance					5,367	6	81,921		81,927

costs									
Conversion of redeemable convertible preferred stock	(9,500)	(9,339)	(8,400)	(27,234)	11,933	12	36,561		36,573
Capital contribution							1,052		1,052
Vesting of restricted shares					276				
Stock-based compensation expense							5,284		5,284
Net loss								(7,110)	(7,110)
Balances at June 30, 2014		$		$	49,564	$ 50	$ 125,255	$ (34,171)	$ 91,134

See accompanying notes to consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Consolidated Statements of Cash Flows

(in thousands)

	For the Years Ended June 30, 2012	2013	2014
Cash flows provided by operating activities:			
Net income (loss)	$ 1,688	$ 617	$ (7,110)
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation	203	523	4,929
Depreciation and amortization	4,624	5,571	6,336
Deferred income tax (benefit) expense	838	(822)	341
Provision for doubtful accounts	60	60	62
Loss on disposal of equipment			98
Changes in operating assets and liabilities:			
Accounts receivable	287	(295)	(78)
Prepaid expenses	(247)	(1,061)	(1,132)
Trade accounts payable	102	138	465
Accrued expenses	1,009	1,497	3,288
Net cash provided by operating activities	8,564	6,228	7,199
Cash flows from investing activities:			
Capitalized internally developed software costs	(3,716)	(1,967)	(4,349)
Purchases of property and equipment	(3,446)	(3,987)	(6,667)
Payments for acquisition			(6,450)
Net change in funds held for clients	35,724	(92,650)	(61,356)
Net cash provided by (used in) investing activities	28,562	(98,604)	(78,822)
Cash flows from financing activities:			
Net change in client funds obligation	(35,724)	92,650	61,356
Principal payments on long-term debt	(312)	(1,625)	(1,563)
Proceeds from initial public offering, net of issuance costs			82,032
Capital contribution			1,052
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 (used in) provided by financing activities	(36,085)	90,939	142,877
Net Change in Cash and Cash Equivalents	1,041	(1,437)	71,254
Cash and Cash Equivalents Beginning of Year			

		7,990		9,031		7,594
Cash and Cash Equivalents End of Year	$	9,031	$	7,594	$	78,848
Supplemental Disclosure of Non-Cash Investing and Financing Activities						
Build-out allowance received from landlord	$	333	$	325	$	1,162
Purchase of property and equipment, accrued but not paid	$	392	$	27	$	896
Unpaid initial offering costs					$	75
Supplemental disclosure of cash flow information						
Cash paid for income taxes	$	7	$	69	$	106
Cash paid for interest	$	161	$	385	$	70

See accompanying notes to consolidated financial statements.

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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") 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.

The Company was formed on November 6, 2013 at which time Paylocity Corporation became a wholly-owned subsidiary resulting in the inclusion of Paylocity Corporation in the consolidated financial statements of Paylocity Holding Corporation. All holders of Paylocity Corporation equity instruments at the time 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 became the sole stockholder of Paylocity Corporation.

In March 2014, the Company amended its Certificate of Incorporation to execute a reverse three for two stock split on its common stock. All share and per share amounts in the Company's audited consolidated financial statements and notes to the financial statement reflect the impact of this change on the number of shares authorized, issued, and outstanding and earnings per share.

Initial Public Offering

In March 2014, the Company completed its initial public offering ("IPO") in which it issued and sold 5,367 shares of common stock and existing shareholders sold 2,735 shares of common stock at a public offering price of $17 per share. The Company did not receive any proceeds from the sale of common stock by the existing shareholders. The Company received net proceeds of $81,927 after deducting underwriting discounts and commissions of $6,387 and other offering expenses of $2,925. Upon the closing of the IPO, all shares of the Company's then-outstanding redeemable convertible preferred stock automatically converted into 11,933 shares of its $0.001 par value common stock.

In connection with the IPO, in March 2014, the Company amended its Certificate of Incorporation to increase the number of authorized common stock to 155,000 and reduce the number of authorized preferred stock to 5,000.

(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.

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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)

Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, software developed for internal use, valuation and useful lives of long-lived assets, definite-lived intangibles, goodwill, stock-based compensation, valuation of net deferred income tax assets and 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 Holding 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.

(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 60 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.

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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)

Activity in the allowance for doubtful accounts was as follows:

	For the Years Ended June 30, 2012	2013	2014
Balance at the beginning of the year	$ 80	$ 114	$ 118
Charged to expense	60	60	62
Write-offs	(26)	(56)	(54)
Balance at the end of the year	$ 114	$ 118	$ 126

(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.

(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 significant additional functionality. The capitalization policy provides for the capitalization of certain payroll costs for employees who are directly associated with developing internal-use software as well as certain external direct costs. Capitalized employee costs are limited to the time directly spent on such projects.

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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)

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) ***Goodwill and Other Intangible Assets, Net of Accumulated Amortization***

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. As described in Note 5, the Company has recorded goodwill in connection with the acquisition of BFKMS, Inc. Goodwill is not amortized, but instead is tested for impairment at least annually. ASU 2011-08, *Testing Goodwill for Impairment* provides an entity the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step impairment test. If it is the case that the estimated fair value of a reporting unit is less than its carrying amount, including goodwill, the two-step goodwill impairment test is required. Otherwise no further analysis is required.

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

The Company will perform its annual impairment review of goodwill in its fiscal fourth quarter and when a triggering event occurs between annual impairment tests. However, given that the Company did not have recorded goodwill until its fiscal fourth quarter of 2014, no impairment tests were required to be completed.

Intangible assets are comprised primarily of client list acquisitions and are reported net of accumulated amortization on the Consolidated Balance Sheets. Client relationships use the straight-line method of amortization over an accelerated nine year time frame, while the non-solicitation agreement uses the straight-line method of amortization over the three year life of the agreement. The Company tests intangible assets for potential impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

(i) ***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. The Company records monthly rent expense for each lease equal to the total payments due over the lease term, divided

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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)

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.

(j) ***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 more likely than not to be realized. Significant management judgment is required in determining the period in 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.

(k) ***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.

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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)

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 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, delivered on a monthly basis, and

- 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

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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)

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 are 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.

(l) ***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 for recurring revenues consists primarily of costs to provide recurring services and support to our clients, and includes amortization of capitalized software. Cost of revenues for implementation services and other consists primarily of costs to provide implementation services and costs related to sales of payroll-related forms and time clocks.

(m) ***Advertising***

Advertising costs are expensed as incurred. Advertising costs amounted to $32, $27 and $24 for the years ended June 30, 2012, 2013 and 2014, respectively.

(n) ***Equity Incentive 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.

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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)

Excess tax benefits of awards that are recognized in equity related to stock option exercises are reflected as financing cash inflows. The total excess income tax benefits recognized for stock-based compensation arrangements was $206 and $63 for the years ended June 30, 2012 and 2013, respectively. There were no excess income tax benefits recognized for stock-based compensation arrangements for the year ended June 30, 2014.

(o) ***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.

(p) ***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.

(q) ***Recently Issued Accounting Standards***

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

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.

(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.

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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 (Continued)

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, 2013 and 2014 based upon the short-term nature of the assets and liabilities.

(5) Business Combinations

On May 23, 2014, the Company closed on the acquisition of certain assets sufficient to sell the Company's products in the Southern California marketplace of one of its resellers described in Note 16, BFKMS Inc., as part of the Company's long term strategy of simplifying its sales channels. The total consideration, all to be paid in cash, was $9,435 of which $6,450 has been paid as of June 30, 2014. Of the remaining amount, $2,385 was paid in July 2014 with two further payments due in November 2014 and February 2015 or upon settlement of any indemnification related issues,

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PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(5) Business Combinations (Continued)

totaling $600. The following table summarizes the provisional fair value of the assets acquired at the date of acquisition:

	At May 23, 2014
Intangible assets	$ 6,400
Goodwill	3,035
Total purchase price	$ 9,435

The Company recorded the acquisition using the acquisition method of accounting and recognized assets at their fair value as of the date of acquisition. The $6,400 of amortizable intangible assets consists of $6,180 in client relationships and $220 in a non-solicitation agreement. The fair value of the client relationships has been estimated using the excess earnings method, a form of the income approach, and cash flow projections. The non-solicitation agreement has been estimated using an avoided loss of income method, which is a form of the income approach. Goodwill will be amortized over a period of 15 years for income tax purposes. The total purchase price and allocation of the purchase price to assets acquired are provisional pending conclusion of the indemnification period and receipt of the final valuation report from a third party valuation expert.

The balance of the acquired intangibles, net of amortization, is stated separately on the consolidated balance sheet. Direct costs related to the acquisition were recorded as general and administrative expense as incurred.

(6) Software Developed for Internal Use

Capitalized software and accumulated amortization were as follows:

	Year ended June 30, 2013	2014
Internally developed software	$ 15,189	$ 19,863
Accumulated amortization	(12,575)	(14,770)
Capitalized software, net	$ 2,614	$ 5,093

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 $2,727, $3,067 and $2,195 for the years ended June 30, 2012, 2013 and 2014, respectively and is included in Cost of Revenues Recurring Revenues.

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PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(7) Property and Equipment

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

	Year ended June 30, 2013	2014
Office equipment	$ 1,350	$ 1,449
Computer equipment	4,665	7,726
Furniture and fixtures	1,433	2,317
Automobiles	36	
Software	3,791	4,963
Leasehold improvements	3,917	6,059
Time clocks rented by clients	1,649	2,360
	16,841	24,874
Accumulated depreciation and amortization	(8,255)	(11,749)
Property and equipment, net	$ 8,586	$ 13,125

There were no impairments to property and equipment in any of the periods covered in these financial statements. Depreciation expense amounted to $1,897, $2,504 and $4,061, for the years ended June 30, 2012, 2013 and 2014, respectively.

(8) Goodwill and Intangible Assets

Goodwill represents the excess of cost over the net tangible and identifiable intangible assets of acquired businesses. Goodwill amounts are not amortized, but rather tested for impairment at least annually. Identifiable intangible assets acquired in business combinations are recorded based on fair value at the date of acquisition and amortized over their estimated useful lives. See Note 5 for further information regarding the acquisition completed in 2014.

The Company had $0 and $3,035 of goodwill recorded as of June 30, 2013 and 2014 respectively.

The Company's amortizable intangible assets, before amortization expense, have estimated useful lives as follows:

	As of June 30, 2014	Weighted Average Useful Life
Client relationships	$ 6,180	9 years
Non-solicitation agreement	220	3 years

Total		6,400
Accumulated amortization		(80)
Intangible assets, net	$	6,320

There was no amortization expense for acquired intangible assets for the years ended June 30, 2012 and 2013. Amortization expense for acquired intangible assets was $80 for the year ended

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PAYLOCITY HOLDING CORPORATION

Notes to the Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(8) Goodwill and Intangible Assets (Continued)

June 30, 2014. Future amortization expense for acquired intangible is as follows, as of June 30, 2014:

Year ending June 30:		
2015	$	760
2016		760
2017		752
2018		687
2019		687
Thereafter		2,674
Total	$	6,320

		8,874				
Current service cost	240		1,254	9	9	
Interest cost	175		4,034	182	1,083	963
Benefits paid for the year			(527)	(85)	(820)	(733)
Actuarial (gains) losses for the year	(247)		(359)	(321)	189	126
Benefit obligation as of December 31, 2004	1,725		40,545	1,427	10,432	9,230
Current service cost	267		1,219	4	7	
Interest cost	178		4,538	157	1,130	1,000
Benefits paid for the year			(875)	(110)	(989)	(773)
Actuarial (gains) losses for the year	890		(5,595)	152	758	567
Benefit obligation as of December 31, 2005	3,060		39,832	1,630	11,338	10,024

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(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

4) Change in plan assets

	2004				
	TCP Prev	**TCO Prev**	**PAMA**	**PBS**	**PBS-A**
Fair value of plan assets as of December 31, 2003	(1,857)	(33,672)	(926)	(10,661)	(10,602)
Benefits paid for the year		527	85	820	733
Sponsor s and employees contributions for the year		(1,079)	(1)	(9)	
Return on plan assets for the year	(1,787)	(7,411)	(227)	(1,787)	(2,134)
Fair value of plan assets as of December 31, 2004	(3,644)	(41,635)	(1,069)	(11,637)	(12,003)
Benefits paid for the year		875	110	989	773
Sponsor s and employees contributions for the year		(712)		(8)	
Return on plan assets for the year	(2,349)	(12,857)	(188)	(2,403)	(1,756)
Fair value of plan assets as of December 31, 2005	(5,993)	(54,329)	(1,147)	(13,059)	(12,986)

5) Estimated expenses for 2006

	TCP Prev	**TCO Prev**	**PAMA**	**PBS**	**PBS-A**
Service cost	438	(581)	2	2	
Interest cost on actuarial liabilities	320	(4,445)	(13)	804	337
Expected return on assets	(743)	7,562	10	(1,076)	(489)
Employees contributions	(3,072)			(1)	
Total	(3,057)	2,536	(1)	(271)	(152)

6) Actuarial assumptions

	2005			
	TCP Prev and TCO Prev	**PAMA**	**PBS**	**PBS-A**
Discount rate used at current value of actuarial liabilities	11.30% p.y.	11.30% p.y.	11.30% p.y.	11.30% p.y.
Estimated return rate on plan assets	13.93% p.y.	12.88% p.y.	12.89% p.y.	12.53% p.y.
Future salary growth rate	7.10% p.y.	7.10% p.y.	7.10% p.y.	7.10% p.y.
Medical costs growth rate		8.15% p.y.		
Benefits growth rate	5.00% p.y.	5.00% p.y.	5.00% p.y.	5.00% p.y.

Mortality table	UP94 with 2 years and segregated by sex	UP94 with 2 years	UP94 with 2 years and segregated by sex	UP94 with 2 years and segregated by sex
Disability table	Mercer disability	Mercer disability	Mercer disability	

32. CORPORATE RESTRUCTURING

On January 14, 2000, a corporate restructuring plan was concluded, in which the goodwill paid in the privatization process of the Company was transferred to TC .

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(In thousands of Brazilian reais, unless otherwise indicated)

The financial statements maintained for the companies corporate and tax purposes record specific accounts related to the goodwill, the related reserve and the respective amortization, reversal and tax credit, the balances of which are as follows:

	Amounts on the date of merger	As of December 31, 2005	2004
Balance sheet:			
Incorporated goodwill	3,192,738	1,250,488	1,569,762
Provision	(2,127,694)	(825,324)	(1,036,044)
Amount	1,065,044	425,164	533,718

	Years ended December 31, 2005	2004
Statement of operations:		
Amortization of goodwill	319,274	319,274
Reversal of provision	(210,720)	(210,720)
Tax benefit	(108,554)	(108,554)
Net effect on net income		

The Board of Directors of the Company and TCO approved two corporate restructurings as follows:

a) First corporate restructuring

On May 13, 2004, the Boards of the TCO and TCP approved a corporate restructuring for the purpose of transferring to TCO and its subsidiaries the goodwill paid by TCP on the acquisition of a controlling interest in TCO, which, on May 31, 2004, amounted to R$1,503,121.

Prior to the incorporation of goodwill by TCO a reserve had been constituted to maintain the shareholders equity of that company in the amount of R$992,060. Thus, net assets incorporated by TCO amounted to R$511,061, which, in essence, represents the tax benefit derived from the deductibility of the goodwill when incorporated by TCO and its subsidiaries.

As of June 30, 2004 the transfer of part of the net assets of TCO to its subsidiaries was approved, based on appraisal reports prepared by independent specialists, as described below:

Company	Goodwill	Reserve to maintain shareholders equity	Net amount
Telemat	248,558	(164,048)	84,510
Telegoiás	352,025	(232,336)	119,689
Telems	144,078	(95,092)	48,986
Teleron	68,775	(45,392)	23,383
Teleacre	29,353	(19,373)	9,980
Total spin-off	842,789	(556,241)	286,548
TCO balance	660,332	(435,819)	224,513
Total	1,503,121	(992,060)	511,061

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TELESP CELULAR PARTICIPAÇÕES S.A.

(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

Concurrently with the transfer of a portion of the net assets to TCO s subsidiaries, a proposal was approved to incorporate the shares of TCO s subsidiaries held by minority shareholders, who received TCO shares in a proportion established by a valuation at market values prepared by independent experts. The transfer of the interests in TCO subsidiaries resulted in an increase of R$28,555 in the capital of TCO.

The accounting records of the companies maintained for corporate and tax purposes have specific accounts relating to the goodwill and provision merged and corresponding amortization, reversal and tax credit, the balances of which are as follows:

	Amounts on the date of merger	As of December 31, 2005	2004
First restructuring:			
Balance sheet:			
Incorporated goodwill	1,503,121	1,033,227	1,327,756
Provision	(992,060)	(681,930)	(876,319)
Amount	511,061	351,297	451,437

	Years ended of December 31, 2005	2004
Statement of operations:		
Amortization of goodwill	294,529	239,903
Reversal of provision	(194,389)	(158,336)
Tax benefit	(100,140)	(81,567)
Net effect on net income		

b) Second corporate restructuring

On August 31, 2005 the Boards of Directors of TCO and TCP approved a corporate restructuring with a view to transferring to TCO the goodwill paid by TCP in the acquisition of TCO s shares through a Voluntary Public Offering on October 8, 2004, the value of which on July 31, 2005 was R$392,265.

Prior to the incorporation of goodwill by TCO, a reserve had been constituted to maintain the shareholders equity of that company in the amount of R$258,895. Thus, net assets incorporated by TCO amounted to R$133,370, which, in essence, represents the tax benefit derived from the deductibility of the above-mentioned goodwill when incorporated by TCO.

The incorporated net asset amount will be amortized over an estimated period of five years and is offset by a special goodwill reserve to be transferred to the capital account in favor of TCP when the tax benefit is effectively realized, with a guarantee to the remainder of the shareholders of participation in these increases in capital, in which case the funds received will be paid to TCP.

	Amounts on the date of merger	**Consolidated 2005**
Second restructuring:		
Balance sheet:		
Incorporated goodwill	392,265	359,576
Provision	(258,895)	(237,320)
Amount	133,370	122,256

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TELESP CELULAR PARTICIPAÇÕES S.A.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

	2005
Statement of operations:	
Amortization of goodwill	32,689
Reversal of provision	(21,575)
Tax benefit	(11,114)
Net effect on net income	

33. TRANSACTIONS WITH RELATED PARTIES

The principal transactions with unconsolidated related parties are as follows:

a) *Use of network and long-distance (roaming) cellular communication*: these transactions involve companies owned by the same controlling group: Telecomunicações de São Paulo S.A. Telesp, Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A. and Celular CRT S.A. Some of these transactions were established based on contracts signed by Telebrás with the concessionaire operators during the period prior to privatization, and the conditions were regulated by ANATEL. These transactions also include call-center services to Telecomunicações Móveis Nacionais TMN customers in connection with roaming services in the Company s network.

b) *Technical assistance*: refers to the provision of corporate management advisory services by PT SGPS, calculated based on a percentage of the net services revenue, monetarily restated in accordance with the currency variation.

c) *Corporate services*: these are passed on to the subsidiaries at the cost effectively incurred for these services.

d) *Call-center services*: provided by Mobitel S.A. Dedic to users of the telecommunications services of the subsidiaries TC and GT, contracted for 12 months, renewable for the same period.

e) *Systems development and maintenance services*: provided by PT Inovação.

A summary of balances and transactions with unconsolidated related parties is as follows:

As of December 31,

	2005	2004
Assets:		
Trade accounts receivable, net	198,720	168,634
Receivable from related parties	32,761	33,162
Liabilities:		
Trade accounts payable	152,435	349,860
Loans and financing	585	329,382
Technical assistance	19,020	33,709
Payable to related parties	6,007	23,902

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(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

	Years ended December 31,		
	2005	**2004**	**2003**
Revenues			
Net operating revenue:			
CRT Celular			1,345
Tele Leste and Subsidiaries			1,140
Tele Sudeste and Subsidiaries			4,870
Telecomunicações de São Paulo S.A. Telesp	1,631,402	1,758,914	1,515,573
Telefônica Publicidade e Informação Ltda. TPI	2		
Telecomunicações Móveis Nacionais TMN		29	168
Balance as of December 31	1,631,404	1,758,943	1,523,096
Expenses			
Cost of services provided			
CRT Celular			(1,552)
Tele Leste and Subsidiaries			(1,538)
Tele Sudeste and Subsidiaries			(6,168)
Telecomunicações de São Paulo S.A. Telesp	(221,756)	(288,127)	(214,810)
Balance as of December 31	(221,756)	(288,127)	(224,068)
Selling expenses:			
Telecomunicações de São Paulo S.A. Telesp		(15,160)	
Terra Brasil S.A.	(118)		
Atento do Brasil S.A.	(112,969)	(41,616)	
Mobitel S.A. Dedic	(183,511)	(141,870)	(99,933)
Balance as of December 31	(296,598)	(198,646)	(99,933)
General and administrative expenses:			
Portugal Telecom SGPS S.A.	(39,431)	(54,635)	(68,280)
Portugal Telecom Inovação		1,556	(289)
Primesys Soluções Empresariais S.A.	(13,920)	(18,839)	(32,767)
Portugal Telecom Inovação Brasil	(309)	(9,131)	(3,496)
PTI			(1,595)
Telecomunicações de São Paulo S.A. Telesp		(2,637)	
Telefónica Comunicaciones Personales UNIFON	(168)		
Telefônica Gestão de Serviços Compartilhados T Gestiona	(12,196)		
Telefônica S.A.		(106)	
Terra Brasil S.A.	(118)	(269)	
Terra Empresas Brasil	(5,980)		
Telefónica Mobile Solutions	(463)	(234)	
Telefónica Móviles Espanha	(29)	(15)	
Balance as of December 31	(72,614)	(84,310)	(106,427)

Other operating revenue	
Telefônica Empresas Brasil	491
Balance as of December 31	491

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

	Years ended December 31,		
	2005	**2004**	**2003**
Financial income (expense), net:			
Portugal Telecom International Finance BV	(78)	(141,673)	(83,749)
Portugal Telecom SGPS S.A.	14,184	8,106	(2,421)
Portugal Telecom Inovação Brasil		(1,479)	(7,216)
Portugal Telecom			7,600
PT Prime Tradecom S.A.		3	(26)
Telefônica Gestão de Serviços Compartilhados T Gestiona	2		
Atento Brasil S.A.	5		
Mobitel S.A. Dedic	11		
Balance as of December 31	14,124	(135,043)	(85,812)
Recovery of expenses from joint venture, proportional:			
Celular CRT Participações S.A.	30,873	26,009	15,888
Tele Leste Celular Participações S.A.	13,752	11,731	7,468
Tele Sudeste Celular Participações S.A.	51,802	47,766	31,175
Balance as of December 31	96,427	85,506	54,531
Expenses from joint venture, proportional:			
Celular CRT Participações S.A.	(7,726)	(6,406)	(4,591)
Tele Leste Celular Participações S.A.	(5,972)	(6,325)	(4,519)
Tele Sudeste Celular Participações S.A.	(50,867)	(54,395)	(53,882)
Balance as of December 31	(64,565)	(67,126)	(62,992)

34. INSURANCE

The Company and its subsidiaries have a policy of monitoring the risks inherent to their operations. Accordingly, as of December 31, 2005, the companies had insurance policies in effect to cover operating risks, third-party liability, health, etc. The management of the Company and its subsidiaries considers that the amounts are sufficient to cover possible losses. The principal assets, liabilities or interests covered by insurance are shown below:

Type	**Amounts insured**
Operating risks	R$10,036,745
General civil liability	R$7,560
Vehicle (officers fleet)	FIPE table 100% R$250 for bodily harm and R$50 for damage to property
Vehicle (operational fleet)	R$250 for bodily harm and R$50 for damage to property

35. SUBSEQUENT EVENTS

In an extraordinary meeting held on February 6, 2006, the Board of Directors approved a proposal to reduce the Company s capital from the current R$6,670,152 to R$3,522,370, a reduction amounting to R$3,147,782, equivalent to the amount of the Company s losses recorded in the balance sheet prepared as of September 30, 2005, with no change in the number of capital shares, as TCP shares have no par value, in order to absorb losses in accordance with the terms of article 173 of Law No. 6,404/76.

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The proposed reduction of capital aimed to expedite the payment of dividends to all the Company s shareholders as soon as TCP starts generating net income, also bearing in mind the intended implementation of the corporate restructuring involving the Company as published at December 4, 2005.

On December 4, 2005, the Company s Board of Directors approved the merger of the shares of TCO for its conversion into a wholly owned subsidiary of TCP and the merger of the companies Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. into TCP (Corporate Restructuring).

On January 11, 2006 the Managing Council of ANATEL approved the corporate restructuring of Vivo Group.

On February 22, 2006 the General Shareholders´ Meeting approved the merger of Celular CRT Participações S.A. (CRTPart), Tele Sudeste Celular Participações S.A. (TSD) and Tele Leste Celular Participações S.A. (TLE) by the Company and the merger of the shares of TCO for its conversion into a wholly owned subsidiary of TCP, as previously proposed by the Board of Directors.

The shareholders of the companies will receive TCP shares for each share in accordance with the table below:

	Shares
New TCP shares issued in substitution for each TCO share of the same class merged	3.0830
New TCP shares issued in substitution for each TSD share of the same class cancelled	3.2879
New TCP shares issued in substitution for each TLE share of the same class cancelled	3.8998
New TCP shares issued in substitution for each CRTPart share of the same class cancelled	7.0294

Since Tele Centro Oeste Celular Participações S.A. will become a wholly-owned subsidiary of TCP, its registration with the CVM, the São Paulo Stock Exchange (BOVESPA), the Securities and Exchange Commission SEC and the NYSE will be cancelled. The changing of the Company s name to Vivo Participações S.A. was also approved.

As a result of the corporate restructuring the stock capital of the Company was increased by R$2,631,136 corresponding to 258,768,433 common shares and 505,319,442 preferred shares, subject to the exercise of withdraw rights of common sharesholders´. The exercise period expired at March 27, 2006, and only one shareholders´ exercised his withdraw right accordingly the above capital increase was reduced by R$104 corresponding to 16,010 preferred share.

36. SUMMARY OF THE DIFFERENCES BETWEEN BRAZILIAN GAAP AND U.S. GAAP

The Company s accounting policies comply with Brazilian Corporate Law (Brazilian GAAP), which differ significantly from accounting principles generally accepted in the United States of America (U.S. GAAP) as described below:

a. Different Criteria for Capitalizing and Amortizing Capitalized Interest

Until December 31, 1998, under Brazilian GAAP, as applied to companies in the telecommunications industry, interest attributable to construction-in-progress was capitalized at the rate of 12% per annum of the

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balance of construction-in-progress. For the three-year period ended December 31, 2005, the Company did not capitalize interest attributable to construction-in-progress at the rate of 12%; rather the actual effective interest related to construction-in-progress was used to determine capitalized interest.

Under U.S. GAAP, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 34 Capitalization of Interest Costs , interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction-in-progress. The credit is a reduction of interest expense. Under U.S. GAAP, the amount of interest capitalized excludes monetary gains associated with local currency borrowings and the foreign exchange gains and losses on foreign currency borrowings, and other financial expenses related to borrowings.

The effects of these different criteria for capitalizing and amortizing capitalized interest are presented below:

	2005	2004	2003
Capitalized interest			
U.S. GAAP capitalized interest	33,048	39,699	18,025
U.S. GAAP capitalized interest on disposals	(39,833)	(7,663)	(160)
Brazilian GAAP capitalized interest	(6,967)	(6,761)	(6,246)
Brazilian GAAP capitalized interest on disposals	31,423	6,687	134
U.S. GAAP difference	17,671	31,962	11,753
Amortization of capitalized interest			
Amortization under Brazilian GAAP	31,023	29,904	40,858
Capitalized interest on disposals	(34,867)	(6,112)	(59)
Amortization under U.S. GAAP	(36,533)	(33,646)	(44,843)
Capitalized interest on disposals	41,446	6,968	70
U.S. GAAP difference	1,069	(2,886)	(3,974)

b. Monetary Restatement of 1996 and 1997

The amortization of the asset appreciation, which originated from the inflation accounting during 1996 and 1997, when Brazil was still considered as high inflationary economy for U.S. GAAP purposes, has been recognized in the reconciliation to U.S. GAAP. The loss related to monetary restatement on disposals of such assets is classified for U.S. GAAP purposes as a component of other operating expense. The resulting step-up is amortized over the remaining lives of the related assets.

c. Exchange of Shares for Minority Interest in Telesp Celular S.A, Telebrasília Celular S.A. and Tele Centro Oeste Celular Participações S.A.

In January 2000, the Company exchanged 21,211,875,174 of its common shares and 61,087,072,187 of its preferred shares for all of the shares held by minority shareholders of Telesp Celular S.A. In 2002, TCO acquired the minority interest in its subsidiary, Telebrasilia Celular S.A. (Telebrasilia) by exchanging shares of TCO for the shares held by the minority shareholders of Telebrasilia. The acquisition increased TCO s interest in Telebrasilia from 88.25% to 100%. In 2004, TCO acquired the remaining minority interests in its other subsidiaries through an exchange offer. The exchange ratio for these share exchanges was based on the respective market value of the shares exchanged.

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Under Brazilian GAAP, the share exchanges were recorded at book value. An increase in capital was recorded based on the market value of the Company s shares and a capital reserve was recorded for the difference between the market price of the acquired company s shares and the book value of the shares.

Under U.S. GAAP, the exchange of shares for minority interests is accounted for using the purchase method of accounting. The purchase price of the shares is recorded based on the market price of the issuing Company s shares at the date of the exchange offer. The purchase price is allocated to the proportional assets and liabilities of the acquired minority interest based on their relative fair values. If the fair values of the net assets exceed the purchase price, the difference is recorded as a reduction to the proportional long-lived assets acquired.

Under U.S. GAAP, the purchase price for the shares of Telesp Celular S.A. was the market price of the Company s shares at the date of the offer. The total purchase price was R$313,643. The fair value of the net assets of Telesp Celular S.A. exceeded the purchase price by R$101,671. Under U.S. GAAP, this difference is recorded as a reduction to the acquired fixed assets of Telesp Celular S.A. The adjustment to reconcile to U.S. GAAP is therefore a reduction of capital reserve and fixed assets of R$101,671 and a reduction of depreciation expense, plus the tax effect, due to the reduction in fixed assets.

Under U.S. GAAP, shares issued to purchase the minority interest in Telebrasília Celular S.A. in 2002 and the remaining minority interests in 2004 were recorded at the fair value of R$64,799 and R$48,542, respectively. The step-up in the fair value of assets was allocated to fixed assets and concession intangibles in the amount of R$2,957 and R$38,336, respectively, for Telebrasília Celular S.A. in 2002 and concession intangibles in the amount of R$26,784 for the remaining minority interests acquired in 2004. The step up in the fair value of assets is being amortized over 19 to 20 years for concession intangibles and 8 years for fixed assets.

d. Acquisitions

Under Brazilian GAAP, purchases of an equity interest of another company are recorded at book value. The difference between the purchased company s proportional net assets and the purchase price is recorded as goodwill. The goodwill is first attributed to any appreciation in the values of the permanent assets acquired and amortized based on the useful lives of the underlying permanent assets. Excess goodwill is generally amortized over 10 years on a straight-line basis, based on estimated future profitability.

Under U.S. GAAP, the cost of an acquired entity is allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values on the date of acquisition. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. Under U.S. GAAP, goodwill is not subject to amortization over its estimated useful life, but rather it is subject to at least an annual assessment for impairment by applying a fair-value-based test.

The differences between Brazilian GAAP and U.S. GAAP relate to (i) the acquisition of an equity interest in Daini do Brasil S.A. (Daini), Globaltelcom Telecomunicações S.A. (Globaltelcom) and GTPS S.A. Participações em Investimentos de Telecomunicações (GTPS) (formerly Inepar S.A. Participação em Investimentos de Telecomunicações), the holding companies which controlled Global Telecom S.A. (collectively, the Holdings) on February 6, 2001, (ii) the acquisition of the remaining interest in the Holdings on December 27, 2002, and (iii) the acquisition of TCO on April 25, 2003 and the tender offers to purchase additional shares of TCO in November 2003 and October 2004.

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Acquisition of GT and Holdings

On February 6, 2001, the Company acquired 49% of the outstanding voting shares and 100% of the outstanding non-voting preferred shares of each of the Holdings that collectively held 95% of the voting shares and 100% of the non-voting shares of GT for a total purchase price of R$914,964. The remaining 5% of the voting shares of GT were held by another investor who subsequently sold them to the three holding companies upon authorization by ANATEL in July 2001. This purchase was funded by an additional capital contribution by the Company to Holdings in the amount of R$17,400. The Company s investment in Holdings represented an 83% aggregate indirect economic interest of the total equity of GT at December 31, 2001. The balance of the economic interest was held by Holdings.

During 2002, TCP and TC made an intercompany loan to GT amounting to R$3,161,709. As described in Note 1, on December 27, 2002, after obtaining approval from ANATEL, TCP purchased the remaining 51% of the outstanding common stock of each of the holding companies (representing an economic interest of 17%) in accordance with the purchase commitment discussed above, for cash of R$290,282 and began to consolidate the Holdings. The total purchase price, considered for U.S. GAAP purposes amounted to R$827,772, representing the cash paid plus the minority interest in the intercompany loans held by Holdings immediately prior to the date of acquisition. Considering TCP s direct and indirect interests, TCP now owns 100% of the capital of GT. On December 30, 2002, R$2,310,878 of the intercompany loan was capitalized, in exchange for additional shares of GT capital stock. The acquisition of GT was completed to increase market presence in the south of Brazil and to enable TC and GT to benefit from synergies to be derived from their operations and sales of handsets.

The excess purchase price was allocated to the following fair value adjustments: (i) property and equipment which is being amortized over approximately 11 years, representing the average remaining useful lives of the relating assets, (ii) customer list which is being amortized over two years, representing the average customer life, (iii) debt which is being amortized by the effective interest method over the remaining maturities of the underlying GT debt obligations, and concession intangible which is being amortized on a straight-line basis over a 12-year period, representing the remaining term of the license.

Following are the components of the U.S. GAAP adjustment in shareholders equity related to GT as of December 31, 2005 and 2004:

	2005	**2004**
Purchase accounting on acquisition of Holdings		
Reversal of goodwill recorded under Brazilian GAAP	(630,537)	(722,693)
Intangible related to concession recorded in U.S. GAAP	1,176,727	1,176,727
Amortization of intangible related to concession	(440,275)	(348,141)
Provision for losses recorded under U.S. GAAP	(89,533)	(89,533)
Property, plant and equipment fair value adjustment	(121,661)	(121,661)
Amortization of fair value of property, plant and Equipment adjustment	66,066	52,830
Customer list intangible asset recorded in U.S. GAAP	140,035	140,035
Amortization of customer list	(140,035)	(140,035)
Debt fair value adjustment	25,800	25,800
Amortization of debt fair value adjustment	(24,267)	(23,371)

Total of the U.S. GAAP adjustments related to acquisition Holdings	(37,680)	(50,042)

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Acquisition of TCO

On April 25, 2003, the Company acquired 64.03% of the voting capital of TCO for approximately R$1,505.6 million, and in November 2003 and October 2004, respectively, the Company completed public tender offers to acquire 26.70% of the voting capital and 32.76% of the preferred shares of TCO for R$538.8 million and R$901,502 million, respectively. After these acquisitions, TCP became the holder of 90.73% of the voting capital of TCO (51.42% of total capital). Additionally, the Company acquired a portion of the remaining balance of the special goodwill reserve of TCO, which was partially capitalized in amount of R$63.893 on July 29, 2005 in its favor, increasing its interest in TCO to 52.47% of total capital.

For U.S. GAAP purposes, the purchase price of such acquisitions was allocated as follows:

	2004 Acquisition	2003 Acquisition
Amounts representing 22.11% and 29.31% of the historical net assets of TCO Under U.S. GAAP	432,344	429,842
Fair Value Adjustments:		
Property and equipment	27,684	42,211(a)
Intangible assets customer list	158,110	163,885(b)
Debt		5,125(c)
Intangible related to concession	525,052	882,824(d)
Goodwill		831,052(e)
Deferred income tax	(241,688)	(277,594)
Purchase Price	901,502	2,077,345

(a) Difference being amortized over approximately 3 years, representing the weighted average remaining useful lives of the relating assets.
(b) Difference being amortized over two years, representing the average customer life.
(c) The adjustment to long-term debt is being amortized by the effective interest method over the remaining maturities of the underlying TCO debt obligations.
(d) The intangible asset related to the concession is being amortized on a straight-line basis over approximately a period of 18 years, representing the remaining term of the license of Area 8 and the remaining term of the license of Area 7 which expire in 2008, plus one extension of 15 years.
(e) The goodwill recorded for U.S. GAAP purposes represents the amount paid in excess of the fair value of TCO. Under Brazilian GAAP, TCP recorded goodwill amounting to R$2,134,824.

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Following are the components of the U.S. GAAP adjustment in shareholders equity related to such acquisitions as of December 31, 2005 and 2004:

	2005	2004
Purchase accounting on acquisition of TCO		
Reversal of goodwill recorded under Brazilian GAAP	(1,373,556)	(1,765,532)
Intangible related to concession recorded in U.S. GAAP	1,407,876	1,407,876
Amortization of intangible related to concession	(272,013)	(195,398)
Property, plant and equipment fair value adjustment	69,895	69,895
Amortization of fair value of property, plant and equipment adjustment	(32,918)	(12,936)
Customer list intangible asset recorded in U.S. GAAP	321,995	321,995
Amortization of customer list	(262,704)	(142,714)
Debt fair value adjustment	5,125	5,125
Amortization of debt fair value adjustment	(3,846)	(2,936)
Goodwill recorded in U.S. GAAP	717,674	786,888
Deferred income tax	(320,625)	(409,633)
Total of the U.S. GAAP adjustments related to acquisition of TCO	256,903	62,630

e. Pension and Other Post-retirement Benefits

TC and TCO participate in two multiemployer benefit plans (PBS-A and PAMA) for their retired employees that are operated and administered by Fundação Sistel de Seguridade Social SISTEL and provide for the costs of pension and other post-retirement benefits based on a fixed percentage of remuneration, as recommended annually by independent actuaries. For purposes of U.S. GAAP, the Company is only required to disclose its annual contributions and the funded status related to multiemployer plans. These companies also sponsor single-employer defined pension benefit plans (PBS-TCP and PBS-TCO) and single-employer defined contribution pension plans (TCO PREV and TCP PREV). Under the TCO PREV and TCP PREV Plans, besides the contributions to the plans, the companies are responsible for funding the risks of death and disability of the participants, and for some participants of the TCO PREV who have migrated from PBS-TCO are also granted some defined pension benefits. The provisions of SFAS No. 87, Employers Accounting for Pensions were applied for the multiemployer plan and the single employer plans were applied with effect from January 1, 1992, because it was not feasible to apply them from the effective date specified in the standard.

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Under U.S. GAAP, the liability to be recorded using actuarial calculations based on SFAS No. 87 differs from actuarial calculations under Brazilian GAAP. The U.S. GAAP liability exceeded the Brazilian GAAP estimated liability by R$3,316 and R$4,386 as of December 31, 2005 and 2004, respectively, and has been recorded in the U.S. GAAP reconciliation as an additional liability. A summary of the difference between Brazilian GAAP and U.S. GAAP in accrued pension and other postretirement plans liabilities is as follows:

	As of December 31, 2005			As of December 31, 2004		
	U.S. GAAP	Brazilian GAAP	Accumulated difference	U.S. GAAP	Brazilian GAAP	Accumulated difference
PBS-TCP	2,309		2,309	2,785		2,785
PBS-TCO	(999)		(999)	(1,062)		(1,062)
TCP-PREV	997		997	1,117		1,117
TCO-PREV	1,492		1,492	1,904		1,904
PAMA		225	(225)		191	(191)
PAMA-TCO		258	(258)		167	(167)
Accrued pension/postretirement benefit	3,799	483	3,316	4,744	358	4,386

Reconciliation of pension and other postretirement benefit plans adjustment:

	Year ended December 31,		
	2005	2004	2003
U.S. GAAP:			
Net periodic pension cost under U.S. GAAP	945	(722)	(1,424)
Pension cost under Brazilian GAAP	(125)	2,829	(3,165)
Net reconciliation effect	1.070	(3,551)	1,741

f. Interest Income (Expense)

Brazilian GAAP requires that interest be shown as part of operating income. Under U.S. GAAP interest expense would be shown after operating income and accrued interest would be included in accounts payable and accrued expenses.

h. Income Taxes

The Company fully accrues for deferred income taxes on temporary differences between tax and accounting records. The existing policies for providing for deferred taxes are consistent with SFAS No. 109, Accounting for Income Taxes , except that under Brazilian GAAP, deferred tax assets are recorded by the amounts expected to be realized, whereas SFAS 109 requires deferred tax assets to be recognized in full, but reduced by a valuation allowance to an amount that is more likely than not to be realized.

As mentioned in Note 29, under Brazilian GAAP, the subsidiaries TCO IP and GT did not recognize deferred income tax and social contribution assets of R$1,037.9 and R$970.4, as of December 31, 2005 and 2004, respectively, due to the uncertainties involving their realization. For U.S. GAAP purposes, these amounts represent the valuation allowances that were required in each year.

This GAAP difference has no impact on net loss nor shareholders equity for all periods presented.

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i. Loss per Share

Under Brazilian GAAP, net loss per share is calculated based on the number of shares outstanding at the balance sheet date.

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, Earnings per Share . This statement became effective December 15, 1997, and provides computation, presentation and disclosure requirements for earnings per share.

Since the preferred and common stockholders have different dividend, voting and liquidation rights, basic and diluted earnings per share have been calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for preferred and common stock according to the dividends to be paid as required by the Company s by-laws and participation rights in undistributed earnings.

Basic earnings per common share is computed by reducing net income by distributable and undistributable net income available to preferred shareholders and dividing net income available to common shareholders by the number of common shares outstanding. Net income available to preferred shareholders is the sum of the preferred stock dividends and the preferred shareholders portion of undistributed net income. Undistributed net income is computed by deducting total dividends (the sum of preferred and common stock dividends) from net income. Undistributed net income is shared equally by the preferred and common shareholders on a pro rata basis. At December 31, 2005, 2004 and 2003, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit realized relating to the corporate restructuring described in Note 21. The number of shares issuable was computed considering the balance of the special goodwill reserve (R$693,678 in 2005 and R$990,169 in 2004 and 2003). However, the potentially dilutive shares, consisting solely of the estimate of common shares issuable mentioned above, have been excluded from the computation for the periods presented as their effect would have been anti-dilutive.

For the year ended December 31, 2005, the Company adopted Emerging Issues Task Force EITF No. 03-6, Participating Securities and the Two-class Method under FASB Statement No. 128. Since preferred shareholders have a liquidation preference over common shareholders, net losses are not allocated to preferred shareholders. Prior period earnings per share amounts presented for comparative purposes were restated to conform to the current year presentation.

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For the periods presented below, the weighted average number of shares outstanding reflect the effect of the reverse stock split described in Note 21. The computation of basic and diluted loss per share is as follows:

	At December 31, 2005		At December 31, 2004		At December 31, 2003	
	Common	Preferred	Common	Preferred	Common	Preferred
	(in thousands, except per share data and percentages)					
Basic numerator						
Basic allocated undistributed dividends	(596,757)		(500,711)		(98,750)	
Allocated net income available for common and preferred shareholders	(596,757)		(500,711)		(98,750)	
Basic denominator						
Weighted average shares outstanding	232,737,408	410,109,272	163,753,546	304,960,195	163,753,546	304,960,195
Loss per share basic	(2.56)		(3.06)		(0.60)	
Diluted numerator						
Diluted allocated undistributed earnings	(596,757)		(500,711)		(98,750)	
Allocated net income available for common and preferred shareholders	(596,757)		(500,711)		(98,750)	
Diluted denominator:						
Weight average shares outstanding	232,737,408	410,109,272	163,753,546	304,960,195	163,753,546	304,960,195
Loss per share diluted	(2.56)		(3.06)		(0.60)	

The Company s preferred shares are non-voting, except under certain limited circumstances and are entitled to a preferential, noncumulative dividend and to priority over the common shares in the event of liquidation of the Company. For all periods presented, the Company did not pay dividends for both preferred and common shares.

j. Permanent Assets

Brazilian GAAP has a class of assets called permanent assets. This is the collective name for all assets on which indexation adjustments were calculated in the corporate and fiscal law accounts of Brazilian companies until December 31, 1995. Under U.S. GAAP the assets in this classification would be non-current assets and property, plant and equipment.

Under Brazilian GAAP, gains and losses on disposals of permanent assets are classified as non-operating results. Under U.S. GAAP, these items are recorded in operating results.

k. Leases

The Company has leased certain computer hardware and software under non-cancelable lease. Under Brazilian GAAP, all leases are considered to be operating leases, with lease expense recorded when paid. For U.S. GAAP purposes, this lease is considered a capital lease as defined in SFAS No. 13, Accounting for Leases. Under SFAS No. 13, the Company is required to record the asset at the present value of the minimum lease

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payments with a corresponding debt obligation. Depreciation is recorded over the shorter of the estimated useful life of the asset or the lease. Interest expense is recognized over the life of the lease and payments under the lease are amortized to principal and interest under the effective interest method.

l. Valuation of Long-lived Assets and Goodwill

Under Brazilian Corporate Law Method, an impairment is recognized on long-lived assets such as property, plant and equipment and concession intangibles if the expected net cash flows generated the respective asset is not sufficient to cover its book value. Under GAAP, the Company evaluates long-lived assets for impairment using the criteria set forth in SFAS No. 144 Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of. In accordance with this standard, the Company periodically evaluates the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from such assets is separately identifiable and is less than their carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the assets.

The Company has performed a review of its long-lived assets including property, plant and equipment, finite-lived intangible asset including concession and concluded that the recognition of an impairment charge was not required. The Company s evaluation of its ability to recover the carrying value of its long-lived assets was based upon projections of future operations that assumed a higher level of revenues and gross margin percentages that the Company has historically achieved. There can be no assurance that the Company will be successful in achieving these improvements in its revenues and gross margin percentages, mainly due to technological and competition environment. Should the Company be unable to achieve such improvements, future impairment provisions may be recorded related to its investments in property, plant and equipment and the licenses acquired to operate its cellular networks by ANATEL.

Under Brazilian GAAP, the amount of goodwill impairment, if any, is measured based on projected undiscounted future operating cash flows. Under U.S. GAAP, pursuant to SFAS 142, Goodwill and Other Intangible Assets, goodwill is not amortized and is subject to a yearly impairment test. In performing the yearly impairment test, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets. The Company then determines the fair value of each reporting unit and compares it to the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, a second step of the impairment test is performed which involves the determination of the implicit fair value of the reporting unit by performing a hypothetical purchase accounting calculation. If the implicit value of the goodwill exceeds the book value, an impairment is recognized. The Company performed an impairment test for goodwill under U.S. GAAP relating to the TCO reporting unit on December 31, 2004 and determined that the recognition of an impairment loss was not required. The fair value of this reporting unit was estimated using the present value of future cash flows.

The changes in the carrying amount of goodwill for the year ended December 31, 2005 and 2004 are as follows:

	TCO	TCO Reporting Unit

	Reporting Unit 2005	2004
Balance at January 1	786,888	831,052
Reduction of goodwill for tax benefits recognized	(69,214)	(44,164)
Balance at December 31	717,674	786,888

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m. Fistel fee

Under Brazilian Corporate Law, the Fistel (Telecommunication Inspection Fund) fee assessed on each activation of a new cellular line is deferred beginning on January 1, 2001 for amortization over the customers estimated subscription period. For U.S. GAAP purposes, this tax would be charged directly to the consolidated statement of income. Therefore, the deferred Fistel taxes on activation fees at December 31, 2005, 2004 and 2003 is being adjusted in the reconciliation of the income differences between Brazilian GAAP and US GAAP.

n. Revenue Recognition

For U.S. GAAP, the Company recognizes service revenue as the services are provided. Prepaid service revenue is deferred and amortized based on subscriber airtime usage. Sales of handsets along with the related cost of the handsets are deferred and amortized over their estimated useful life. The excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale.

i. Prepaid services

Under Brazilian GAAP, until 2002 revenues related to prepaid services were recognized when collected and, based on past gross margins experienced in providing such services, the related costs to be incurred were accrued for concurrently with the recognition of revenue. As from January 1, 2003, the Company prospectively changed its accounting policy to defer revenue related to prepaid service and amortize the revenue based on subscriber airtime usage. Under U.S. GAAP, prepaid service revenue is deferred and amortized based on subscriber airtime usage. The related accrual for the cost of future service is fully reversed under U.S. GAAP and will be recognized in income as customers use airtime and the related costs are incurred. For the year ended December 31, 2004, a measurement difference between BR GAAP and U.S. GAAP no longer exists.

ii. Roaming

The Company has roaming agreements with other cellular service providers. When a call is made from within one coverage area by a subscriber of another cellular service provider, that service provider pays the Company for the service at the applicable rates. Conversely, when one of the Company s customers roams outside the coverage area, the Company pays the charges associated with that call to the cellular service provider in whose region the call was originated and charges the same amount to its subscriber. Under Brazilian GAAP, revenues for roaming charges are recorded net of the related costs when the services are provided. Under U.S. GAAP, revenues and costs for roaming charges should be recorded gross. Accordingly this difference in accounting policy has no impact on net loss nor in the reconciliation of shareholders equity. The impact of this difference under U.S. GAAP was to increase both revenues and cost of goods and services by R$154,772, R$173,165 and R$182,964 for 2005, 2004 and 2003, respectively.

iii. Value-added and other sales taxes

Under Brazilian GAAP, these taxes are recorded in revenue net of the related tax expense. Under U.S. GAAP, these taxes are recorded gross as revenue and related cost of services and goods. Accordingly, this difference in accounting has no impact in net loss nor in shareholders equity. The impact of this difference under U.S. GAAP was to increase both revenues and cost of goods and services by R$1,940,487, R$1,774,049 and R$1,333,912 and for 2005, 2004 and 2003, respectively, for U.S. GAAP as compared to amounts reported under Brazilian GAAP.

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iv. Deferred revenue sales of handsets

Under Brazilian GAAP, revenues and costs related to handset sales, including applicable value added and other sales taxes, are recognized when sold. Under U.S. GAAP, revenue on sales of handsets along with the related cost of the handset, including applicable value added and other sales taxes, are amortized over their estimated useful life. Any excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. As substantially all of the Company s handsets are sold below cost, this difference in accounting policy had no impact on net loss nor in shareholders equity. The unamortized balance of deferred handset revenue and the related balance of unamortized deferred handset costs was R$885,899, R$760,677 and R$1,524,932 at December 31, 2005, 2004 and 2003, respectively. The impact of this difference on the USGAAP was to decrease both net revenues and cost of services and goods by R$125,223 at December 31, 2005 and to increase both net revenues and cost of services and goods by R$764,255 and R$198,603 at December 31, 2004 and 2003, respectively.

v. Prepaid handset installment plan

The Company markets certain of its handsets in connection with a prepaid service program took place in 1999 and 2000 and allowed for the payment of the handset in installments. A portion of any future purchases of minutes is allocated as an installment payment based on published pricing. Under Brazilian GAAP, the Company records an amount of future handset revenue under the installment program at the date of sale based on an estimate of future minute purchases. Under U.S. GAAP, this revenue is not recognized until such future purchases are made. For the year ended December 31, 2004, a measurement difference between BR GAAP and U.S. GAAP no longer exists.

vi. Sales of handsets with minute rebates

During 2003, the Company implemented a corporate client plan that gives a free phone to users that sign a long-term contract with a fixed amount of minutes. Under Brazilian GAAP, the Company recognizes the transfer of the handset as a sale based on the fair value of the handset at the beginning of the contract period. Under U.S. GAAP, the Company does not record the transfer of the handset as a sale; the cost of the handset is recorded as an expense at the beginning of the contract. In 2004, this plan was discontinued.

vii. Free minutes given in connection with sales of handsets

Under U.S. GAAP, pursuant to Emerging Issues Task Force (EITF) No. 00-21, Revenue Arrangements with Multiple Deliverables, the Company began to separately account for free minutes given in connection with the sales of handsets. The adoption of EITF No. 00-21 is effective prospectively for transactions entered into as from January 1, 2004. Consequently, a portion of the revenue generated from the sale of handsets is allocated to the free minutes given and deferred based on the fair value of the minutes. The revenues associated with the free minutes are then recognized based on subscriber airtime usage. Under Brazilian GAAP, the Company does not separately account for free minutes given in connection with sales of handsets.

o. Derivative Financial Instruments

As mentioned in Note 30 the Company and its Subsidiaries have entered into foreign currency swap contracts at various exchange rates, in the notional amount of US$ 1,164.0 million, JPY 22,409.6 million and

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2.5 million at December 31, 2005 (US$1,057.2 million, JPY 6,827.4 million and 25,1 million at December 31, 2004). Under Brazilian GAAP, foreign currency swap contracts are recorded at the notional amount multiplied by the terms of the contract as if they had been settled at the balance sheet date.

The Company applies SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value. Changes in the derivative s fair value are recognized currently in earnings unless specific hedge accounting criteria are met.

If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Any portion of a change in a derivative s fair value that is considered to be ineffective, as defined, must be immediately recorded in earnings. Any portion of a change in a derivative s fair value that the Company has elected to exclude from its measurement of effectiveness, such as the change in time value of option contracts, will also be recorded in earnings.

The Company has designated certain swap contracts that relate to transactions in which a fixed-rate, foreign currency-denominated loan is converted into a variable-rate, functional currency-denominated loan as fair value hedges. The Company had R$ 2,232.8 million (US$ 764.0 million and JPY 22,409.6 million) as of December 31, 2005, and R$ 1,912.9 million (US$ 653.9 million and JPY6,827.4 million) as of December 31, 2004, of notional value swap contracts with a fair value of R$ 2,315.8 million as of December 31, 2005 (R$ 1,998.1 million as of December 31, 2004) designated as fair value hedges of a portion of the Company´s foreign currency denominated debt. The Company is hedging the related foreign currency (U.S. dollar) and interest rate risk associated with such indebtedness. The Company calculates the effectiveness of these hedges both at inception and on an ongoing basis (i.e. at least quarterly). Since theses derivative contracts qualify for hedge accounting under U.S. GAAP, the hedged debt is also adjusted to fair value under the fair value hedge rules of SFAS No. 133. At December 31, 2005 and 2004, the value of the Company s debt subject to these accounting hedges is higher than their respective book values by R$ 12.5 million and R$ 32.2 million, respectively, representing the related mark-to-market adjustment, which was recorded in the statement of loss as part of financial expense, net for the year ended December 31, 2005 and 2004. Ineffectiveness, amounting to R$17.8 for the year ended December 31, 2005, was included in current earnings. For the years ended December 31, 2004 and 2003, ineffectiveness was immaterial. Consequently, these derivative instruments have been highly effective in achieving offsetting changes in fair values due to changes in the risks being hedged. The U.S. GAAP adjustment reflects the difference between the recorded value of the related derivative contracts and the related debt under Brazilian GAAP and their fair values under U.S. GAAP. The Company s remaining derivative contracts for the periods presented have not been accounted for using hedge accounting. Consequently, these derivative contracts are recorded at fair value at December 31, 2005 and December 31, 2004.

p. License acquisition costs

The incurred interest between the date of the documentation and proposal submission to obtain the license acquisition to operate Band B mobile telephone services and the date of the initial operations of GT was recorded as deferred assets according to Brazilian GAAP. Under U.S. GAAP the interest was capitalized as license acquisition cost. The amount of reversal relates to differences on interests accrued in 1998. This difference is being amortized over the license period.

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Additionally, GT recorded amortization of license acquisition costs during the start-up period as deferred assets according to Brazilian GAAP. Under U.S. GAAP such amortization was reversed and the amortization period starts on the start-up date, January 1st, 1999, the date that GT began to operate.

For Brazilian GAAP purposes, the amortization period of the concession (license) for the Band B Company, Norte Brasil Telecom S.A. (NBT) is 30 years in 2000, which included an additional 15 years assuming renewal by Anatel. For U.S. GAAP purposes, the amortization period of 15 years includes only the initial term of concession. In 2001, NBT changed the amortization period to 15 years with the aim of conforming Brazilian GAAP treatment to U.S. GAAP treatment.

q. Deferred assets

GT has recorded pre-operational costs as deferred assets, to be amortized on a straight-line basis over 10 years, as allowed by Brazilian GAAP. Under U.S. GAAP, these costs are recorded as expenses when incurred.

r. Advance to affiliate

In January 2002, TCO made an advance payment of R$34,259, adjusted based on market rates, to BID S.A. corresponding to the present value of the tax benefit contributed by BID S.A. to TCO relating to the goodwill paid by BID S.A. for TCO´s shares. With this transaction, TCO relieved itself of the obligation to issue the corresponding shares to BID S.A. in the future. On December 2004, such balance of advance payment was R$15,584. Under Brazilian GAAP, the amount of R$15,584 was recorded as an advance to affiliate. For U.S. GAAP purposes, such transaction would be recorded as a distribution to shareholders. Additionally, for U.S. GAAP purposes, no interest income would be accrued related to this transaction.

In 2005, this advance was reverted from to capital reserve in TCO, as a special goodwill reserve.

t. Items posted directly to shareholders equity

Under Brazilian GAAP various items are posted directly to shareholder s equity, which under U.S. GAAP would be posted to the consolidated statements of operations. The posting of such items to shareholders equity gives rise to adjustments in the consolidated statement of changes in shareholders equity. Since the original postings to the equity accounts would, under U.S. GAAP, be made directly to the consolidated statements of income, the adjustment is included in the reconciliation of the income differences between US and Brazilian GAAP. Tax incentives and donations are adjusted in the Company s financial statements for U.S. GAAP purposes.

u. Deferred 2005 restructuring costs

The Company commenced a restructuring process in the end of 2005 that will result in the exchange of shares of the Company for shares held by minority shareholders outside of companies controlled by Brasilcel N.V. The Company incurred certain costs directly related to the exchange of shares with minority shareholders in the restructuring that were expensed during the year ended December 31, 2005 under Brazilian GAAP. Under U.S. GAAP, pursuant to SFAS No. 141, the costs of registering and issuing equity securities is recognized as a reduction of the otherwise determinable fair value of the securities and the direct costs including out-of-pocket or incremental costs directly related to an acquisition of minority interest, such as fees paid to outside consultants for accounting, legal issues and for appraisals are included as part of the acquisition cost. Therefore, the amounts related to direct costs incurred to the registering and issuing of equity securities and the acquisition of minority interest was deferred as of December 31, 2005 under U.S. GAAP.

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Reconciliation of the Net Loss differences between Brazilian GAAP and U.S. GAAP:

	2005	2004	2003
Brazilian GAAP net loss of the year	(909,246)	(490,144)	(640,234)
Add (deduct):			
Different criteria for:			
Amortization of monetary restatement of 1996 and 1997	(10,664)	(18,046)	(37,959)
Loss on disposal of assets monetarily restated in 1996 and 1997	(844)	(5,874)	(410)
Capitalized interest	17,671	31,962	11,753
Amortization of capitalized interest	1,069	(2,886)	(3,974)
Deferred 2005 restructuring costs	19,950		
Revenue Recognition of prepaid services			60,485
Prepaid installment plan revenue			15,503
Sales of handset with minute rebates		16,244	(16,244)
Pension and other post retirement benefits	1,070	(3,551)	1,741
Exchange of shares for minority interest:			
Depreciation effect from reduction of fixed assets	9,543	9,583	13,037
Amortization of concession	(3,482)	(2,723)	(1,474)
FISTEL fees	22,866	(54,199)	(18,766)
Difference in criteria for capital leases	(6,224)	9,227	25,672
Derivative contracts	(13,097)	61,561	755,203
Amortization of license acquisition costs	(6,159)	(5,819)	(4,095)
Advance to affiliate	15,584	28,877	(2,916)
Amortization of deferred assets	35,863	36,879	34,759
Donations	248	(848)	
Acquisitions:			
Reversal of goodwill amortization according to Brazilian GAAP	484,132	274,286	95,071
Reversal of tax benefit on amortization of goodwill according to Brazilian GAAP	(45,681)	(29,148)	
Depreciation of fixed assets	(6,746)	2,470	11,067
Amortization of customer list	(119,990)	(115,134)	(59,151)
Amortization of intangible related to concession	(168,749)	(207,082)	(172,584)
Additional interest expense on purchase price allocation of debt	(1,806)	(1,893)	(2,852)
Tax incentives	7,887		
Free minutes given in connection with sales of handsets	11,401	(49,043)	
Deferred tax effect on the above adjustments	87,850	26,679	(161,801)
Minority interest on the above adjustments	(19,203)	(12,089)	(581)
U.S. GAAP net loss for the year	(596,757)	(500,711)	(98,750)
Loss per share in accordance with U.S. GAAP			
Common shares Basic and diluted	(2.56)	(3.06)	(0.60)
Weighted average common shares Basic and diluted	232,737,408	163,753,546	163,753,546

Preferred shares Basic and diluted			
Weighted average preferred shares Basic and diluted	410,109,272	304,960,195	304,960,195

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As described in Note i , under EITF No. 03-06, net losses have not been allocated to preferred shares in the loss per share calculation since preferred shareholders have a liquidation preference over common shareholders. Additionally, as described in Note i , loss per share and share amounts have been retroactively restated to reflect the reverse stock split described in Note i .

Reconciliation of the Shareholders Equity differences between Brazilian GAAP and U.S. GAAP:

	2005	2004	2003
Brazilian GAAP shareholders equity	4,015,189	2,907,381	3,393,161
Add (deduct):			
Different criteria for:			
Monetary restatement of 1996 and 1997, net	9,448	20,956	44,876
Capitalized interest	104,971	87,300	55,338
Amortization of capitalized interest	(8,737)	(9,806)	(6,920)
Deferred 2005 restructuring costs	19,950		
Free minutes given in connection with sales of handsets	(37,642)	(49,043)	
Sales of handsets with minute rebates			(16,244)
Pension and other post-retirement benefits	(3,316)	(4,386)	(835)
Exchange of shares for minority interest:			
Adjustment to fixed assets	(98,713)	(98,713)	(98,714)
Accumulated depreciation	76,581	67,038	57,455
Adjustment to concession	68,621	68,621	38,336
Amortization of concession	(9,468)	(5,986)	(3,263)
FISTEL fees	(80,556)	(103,422)	(49,223)
Value of fixed assets net of depreciation capital leases	28,466	35,331	42,196
Capital Lease obligations		(641)	(16,733)
Derivative contracts	(78,088)	(64,991)	(126,552)
Interest capitalized on license acquisition costs	42,006	42,006	42,006
Accumulated amortization of license acquisition costs	(29)	6,130	11,949
Deferred assets, net of accumulated amortization	(130,575)	(166,438)	(203,317)
Advance to affiliate		(15,584)	(44,461)
Donations	(11,709)	(859)	
Acquisitions:			
Acquisition of GT and Holdings	(37,680)	(50,042)	43,179
Acquisition of TCO	256,903	62,630	(5,079)
Deferred taxes on the above adjustments	32,879	10,504	54,651
Minority interest on the above adjustments	(19,603)	(2,339)	20,189
U.S. GAAP shareholders equity	4,138,898	2,735,647	3,231,995
Changes in the Consolidated Shareholders Equity under U. S. GAAP			
Shareholders equity under U.S. GAAP as of beginning of the year	2,735,647	3,231,995	3,307,307
Capital increase	2,000,000		

Goodwill reserve on acquisition of fractional shares	8		
Taxes adjustments on special premium reserve			22,083
Expired dividends		4,363	1,355
Net loss	(596,757)	(500,711)	(98,750)
Shareholder s equity under U.S. GAAP as of ending of the year	4,138,898	2,735,647	3,231,995

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U.S. GAAP supplementary information

	2005	2004	2003
Reconciliation of operating income under Brazilian GAAP to operating income under U.S. GAAP			
Brazilian GAAP operating income (loss) as reported	(430,978)	219,622	(78,882)
Reversal of financial (income) expense, net	917,614	1,095,402	1,133,504
U.S. GAAP adjustments			
Amortization of monetary restatement of 1996 and 1997	(10,664)	(18,046)	(37,959)
Loss on disposal of assets monetarily restated in 1996 and 1997	(844)	(5,874)	(410)
Amortization of capitalized interest	1,069	(2,886)	(3,974)
Amortization of license acquisition costs	(6,159)	(5,819)	(4,095)
Fixed assets capital lease			8,694
Depreciation of capital lease	(6,865)	(6,865)	(7,297)
Fistel fee	22,866	(54,199)	(18,766)
Exchange of shares of minority interest:			
Depreciation effect from reduction of fixed assets	9,543	9,583	13,037
Amortization of concession	(3,482)	(2,723)	(1,474)
Amortization of deferred assets	35,863	36,879	34,759
Amortization of donations	248	(848)	
Pension and other postretirement benefits	1,070	(3,551)	1,741
Sales of handset with minute rebates		16,244	(16,244)
Revenue recognition of prepaid service			60,485
Prepaid installment plan revenue			15,503
Free minutes given in connection with sales of handsets	11,401	(49,043)	
Advance to affiliate	15,584	28,877	(2,916)
Acquisitions:			
Reversal of goodwill amortization according to Brazilian GAAP.	484,132	274,286	95,071
Amortization of intangible related to concession	(168,749)	(207,082)	(172,584)
Depreciation of fixed assets	(6,746)	2,470	11,067
Amortization of customer list	(119,990)	(115,134)	(59,151)
Loss on permanent assets disposals	(34,481)	(45,865)	(18,694)
Provision for loss investments	(15,830)		
Deferred 2005 restructuring costs	19,950		
U.S. GAAP operating income	714,552	1,165,428	951,415

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	2005	2004	2003
Reconciliation of net operating revenue and costs of services and goods sold under Brazilian GAAP to U.S. GAAP			
Brazilian GAAP net revenue	7,473,066	7,341,027	6,046,377
Reclassification to cost of services and goods Value-added and other sales taxes	1,940,487	1,774,049	1,333,912
Roaming charges	154,772	173,165	182,964
Deferred revenues on sales of handsets, net of amortization	(125,223)	764,255	198,603
U.S. GAAP adjustments			
Deferred revenues on prepaid services			93,863
Free minutes given in connection with sales of handsets	11,401	(49,043)	
Deferred revenues on prepaid installment sales plan			46,987
Deferred revenues on sales of handsets with minute rebates		16,244	(16,244)
U.S. GAAP net revenue	9,454,503	10,019,697	7,886,462
Brazilian GAAP cost of services and goods sold	(3,357,505)	(3,326,202)	(3,020,533)
Reclassification to cost of services and goods sold			
Value-added and other sales taxes	(1,940,487)	(1,774,049)	(1,333,912)
Roaming charges	(154,772)	(173,165)	(182,964)
Deferred cost on handset sales, including taxes on sales, net of amortization during the year	125,223	(764,255)	(198,603)
Reclassification from selling expense			
Rewards program expense	(14,347)	(5,163)	(9,555)
U.S. GAAP adjustments			
Amortization of monetary restatement of 1996 and 1997	(10,664)	(18,046)	(37,959)
Amortization of capitalized interest	1,069	(2,886)	(3,974)
Amortization of license acquisition costs	(6,159)	(5,819)	(4,095)
Depreciation of capital lease	(6,865)	(6,865)	(7,297)
Fistel Fee	22,866	(54,199)	(18,766)
Deferred revenues on prepaid services			(33,378)
Deferred revenues on prepaid installment sales plan			(31,484)
Exchange of shares of minority interest:			
Depreciation effect from reduction of fixed assets	9,543	9,583	13,037
Amortization of concession	(3,482)	(2,723)	(1,474)
Amortization of donations	248	(848)	
Pension and other post-retirement benefits	1,070	(3,551)	1,741
Acquisitions:			
Amortization of intangible related to concession	(168,749)	(207,082)	(172,584)
Depreciation of fixed assets	(6,746)	2,470	11,067
Amortization of customer list	(119,990)	(115,134)	(59,151)
U.S. GAAP cost of services and goods	(5,629,747)	(6,447,934)	(5,089,884)
U.S. GAAP gross profit	3,824,756	3,571,763	2,796,578

Supplementary balance sheet information U.S. GAAP:			
Total assets	14,469,312	14,226,289	13,546,493
Current liabilities	4,428,778	5,641,371	6,308,030
Noncurrent liabilities	4,823,319	2,876,896	2,905,685
Net property, plant and equipment	6,075,346	5,649,653	4,738,316

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37. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

a. Pension and Other Postretirement Benefits

As described in Note 31 and 36e., the Company s employees receive pension and postretirement pension benefits under funded and unfunded defined benefit plans, defined contribution plans and multiemployer plans. The Company uses a November 30 measurement date for the majority of its plans assets. Disclosures on the Company´s contributions to defined contribution and multiemployer plans are included in Note 30.

As discussed in Note 1, the Company acquired TCO on April 25, 2003 and consequently, the PBS-TCO defined benefit plan as well as TCO-PREV defined contribution plan have been recorded by the Company as from May 1, 2003. Although TCP-PREV and TCO-PREV are defined contribution plans there is a risk of death and disability of participants, which is born by the sponsor, requiring an actuarial calculation. Following is obligation and funded status information on the Company s single-employer benefit plans under U.S. GAAP:

Change in benefit obligation

	2005	**2004**
Benefit obligation at beginning of year	52,704	47,671
Service cost	1,493	1,503
Interest cost	5,846	5,293
Actuarial (gain) loss	(3,946)	(417)
Benefits paid	(1,864)	(1,346)
Benefit obligation at end of year	54,233	52,704

Change in plan assets

	2005	**2004**
Fair value of plan assets at beginning of year	56,916	46,190
Actual return on plan assets	17,614	10,984
Actual contributions	720	1,088
Benefits paid	(1,864)	(1,346)
Fair value of plan assets at end of year	73,386	56,916

Reconciliation of funded status

	2005	**2004**

Funded status	(19,153)	(4,212)
Unrecognized net actuarial gains	28,241	14,825
Unrecognized net transition obligation	(5,289)	(5,867)
Net amount recognized	3,799	4,746

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Amounts recognized in the statement of financial position of:

	2005	2004
Prepaid benefit cost	(999)	(1,061)
Accrued benefit cost	4,798	5,807
Net amount recognized	3,799	4,746

The accumulated benefit obligation for all defined benefit pension plans was R$53,515 and R$51,780 in 2005 and 2004, respectively.

Components of net periodic pension cost and other benefit cost

	2005	2004	2003
Service cost (net of employee contributions)	1,490	1,493	1,768
Interest cost on PBO	5,846	5,293	4,610
Expected return on assets	(7,772)	(5,411)	(5,245)
Amortization of initial transition obligation	578	578	577
Amortization of gains	(367)	(144)	(286)
Net periodic pension cost and other benefit cost	(225)	1,809	1,424

Assumptions:

	2005	2004	2003
Discount rate for determining projected benefit obligations	11.30%	11.30%	11.30%
Rate of increase in compensation levels	7.10%	7.10%	7.10%
Benefit adjustments	5.00%	5.00%	5.00%
Expected long-term rate of return on plan assets	12.89%	13.75%	11.83%
Inflation	5.00%	5.00%	5.00%

Plan assets

The Company s weighted average pension plan asset allocations by asset category at the end of 2005 and 2004, and the target allocation for 2006, are as follows.

	Target Allocation for 2006	Percentage of Plan Assets at Year End 2005	2004
Asset category			
Equity securities	14.8%	17.5%	14.5%
Loans	1.9%	1.4%	1.4%
Fixed income	83.3%	81.1%	84.1%
Total	100.0%	100.0%	100.0%

The investment strategy for these pension plans is based on a long-term macroeconomic scenario, which takes into consideration the assumption of maximization of return commensurate to the risks of the several kinds of

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TELESP CELULAR PARTICIPAÇÕES S.A.

(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

investments (fixed income, equity securities and loans), according to limits of allocation imposed by *Conselho Monetário Nacional* Resolutions. The expected return on plan assets is average after-tax return of each asset category weighted by target allocations. Asset categories returns as based on long term macroeconomic scenarios.

A summary of the SISTEL multiemployer defined benefit pension plan (inactive employees pension plan-PBS-A) as of December 31, 2005 and 2004, which the Company and its subsidiaries participate is as follows:

Inactive employees pension plan PBS-A

	2005	2004
Funded status:		
Accumulated benefit obligation Vested	3,876,556	3,590,683
Projected benefit obligation	3,876,556	3,590,683
Fair value of plan assets	(5,021,828)	4,669,444
Funded status	(1,145,272)	(1,078,761)

A summary of the SISTEL multiemployer postretirement benefits plan (health care plan PAMA), which the Company and its subsidiaries participate, is as follows:

Health Care Plan PAMA

	2005	2004
Funded Status:		
Accumulated postretirement benefit obligation:		
Active participants	25,865	17,094
Inactive participants	740,531	639,463
	766,396	656,557
Fair value of plan assets	539,250	491,809
Obligations in excess of plan assets	227,146	164,748

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Single-employer
	Amount
2006	2,419
2007	2,687
2008	2,855
2009	3,028
2010	3,198
Years 2011-2015	18,656

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TELESP CELULAR PARTICIPAÇÕES S.A.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

b. Intangible assets

Following is a summary of the Company s intangible assets subject to amortization under U.S. GAAP:

	2005			2004		
	Concession	**Software use rights**	**Customer list**	**Concession**	**Software use rights**	**Customer list**
Gross	3,671,707	1,786,287	462,030	3,671,707	1,214,080	462,030
Accumulated amortization	(1,223,319)	(922,819)	(402,739)	(977,423)	(675,404)	(282,749)
Write-off	(89,533)			(89,533)		
Net	2,358,855	863,468	59,291	2,604,751	538,676	179,281
Amortization expense	245,896	247,415	119,990	284,074	217,619	115,134
Amortization period	(a)	5 years	2 years	(a)	5 years	2 years

(a) Amortized on a straight-line method over the concession period until April, 2013 for GT and until 2023 for TCO.

The estimated aggregate amortization expense for the next five years is as follows:

	Amount
2006	660,038
2007	569,289
2008	423,899
2009	243,489
2010	243,489

c. Capital Leases

The following summarizes the amounts related to the assets and accumulated depreciation for U.S. GAAP purposes of the related assets under the Company s capital lease obligations:

	2005
Property, Plant and Equipment:	
Software	70,774
Less: accumulated amortization	(42,308)
	28,466

There is no minimum payment to be disclosed since all the lease obligation were settled up to December 31, 2005.

d. Concentration of Risks

Credit risk with respect to trade accounts receivable is diversified. The Company continually monitors the level of trade accounts receivable and limits the exposure to bad debts by cutting access to the telephone network if any invoice is 15 days past due. Exceptions comprise telephone services that must be maintained for reasons of safety or national security.

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TELESP CELULAR PARTICIPAÇÕES S.A.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

In conducting their business, Telesp Celular S.A. and Global Telecom are fully dependent upon the cellular telecommunications authorizations, granted by the Federal Government.

There is no concentration of available sources of labor, services, concessions or rights, other than those mentioned above, that could, if suddenly eliminated, severely impact the Company s operations.

e. Commitments (Unaudited)

Budgeted capital expenditure commitments for 2006 are approximately R$1,172.7 million. For 2005, the budgeted capital expenditure commitments were approximately R$1,306,0 million of which R$1,557.7 million was incurred during the year. Most of the 2005 capital expenditures was related to infrastructure, information technology and transmission equipment.

The Company is subject to obligations concerning quality of services, network expansion and modernization, as established in our authorizations and our original concession agreements. The Company believes that it is currently in compliance with its quality of service and expansion obligations.

f. Segment information

The Company has determined that its reportable segments are those that are based on the Company s method of internal reporting. The reportable segments of the Company are Telesp Celular, Global Telecom and TCO. These reportable segments are strategic business subsidiaries that operate in different concession areas and are in different phases of development and therefore, are managed and funded separately.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales are recorded at cost.

Following is information on the Company s reportable segments:

	As of and for the year ended December 31, 2005					
	Telesp Celular	Global Telecom	Tele Centro Oeste	Other	Eliminations	Consolidated
Net operating revenue	4,380,922	820,704	2,271,440			7,473,066
Operating income(loss)	255,153	(322,026)	222,260	(461,371)	(124,994)	(430,978)
Net income (loss)	130,853	(327,487)	57,849	(603,577)	(166,884)	(909,246)
Total assets	6,170,396	2,632,890	4,785,858	472,922	(275,333)	13,786,733

Following is information on the Company s reportable segments:

	As of and for the years ended December 31, 2004					
	Telesp Celular	Global Telecom	Tele Centro Oeste	Other	Eliminations	Consolidated
Net operating revenue	4,329,088	801,513	2,210,426			7,341,027
Operating income (loss)	607,126	(177,296)	527,758	(277,889)	(460,077)	219,622
Net income (loss)	461,685	(180,348)	291,307	(734,476)	(328,312)	(490,144)
Total assets	6,107,360	2,869,607	4,924,746	461,665	(223,979)	14,139,399

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TELESP CELULAR PARTICIPAÇÕES S.A.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands of Brazilian reais, unless otherwise indicated)

	For the years ended December 31, 2003					
	Telesp Celular	Global Telecom	Tele Centro Oeste	Other	Eliminations	Consolidated
Net operating revenue	3,993,247	669,048	1,390,937		(6,855)	6,046,377
Operating income (loss)	681,540	(435,234)	355,386	(545,119)	(135,455)	(78,882)
Net income (loss)	495,172	(436,020)	233,133	(680,619)	(251,900)	(640,234)

g. New accounting pronouncements

In March 2004, the Emerging Issues Task Force of the FASB reached a consensus on EITF 03-06 (Participating Securities and the Two-Class Method under FASB Statement No. 128) that an entity would allocate losses to a nonconvertible participating security in periods of net loss if, based on the contractual terms of the participating security, the security had not only the right to participate in the earnings of the issuer, but also a contractual obligation to share in the losses of the issuing entity on a basis that was objectively determinable. Determination of whether a participating security holder has an obligation to share in the losses of the issuing entity in a given period must be made on a period-by-period basis, based on the contractual rights and obligations of the participating security. EITF Issue No. 03-06 is effective for fiscal periods beginning after March 31, 2004. Earnings per share in prior years must be retroactively adjusted in order to comply with the consensus decisions reached in EITF No. 03-06. EITF No. 03-06 has been adopted in 2005.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections , which replaces APB Opinion No. 20, Accounting Changes , and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements , and provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 applies to all voluntary changes in accounting principles and requires retrospective application (a term defined by this SFAS) to prior periods financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. In addition, SFAS No. 154 redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management does not expect the adoption of this SFAS will have an impact on the Company s financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for the year ended December 31, 2005 for calendar year companies. Company is currently evaluating FIN 47 to determine the impact on its consolidated financial statements.

* * * * * * * * * * *

fering period will begin on the first trading day on or after May 16 and November 16 of each year, effective after the first offering period after the Company's initial public offering ("IPO"). 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.

A total of one-million shares of common stock have been reserved for future issuance under the ESPP, none of which have been issued as of September, 2014 as the initial offering period has not been completed. The number of shares of common stock reserved for issuance under the ESPP will increase automatically each year, beginning on January 1, 2015 and continuing through and including January 1, 2024. The number of shares added each year will 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 commenced its initial post-IPO ESPP four month offering period on July 16, 2014. The Company recorded compensation expense attributable to the ESPP of $130 for the three-month period ended September 30, 2014 which is included in the summary of stock-based compensation expense above. The grant date fair value of the ESPP offering period was estimated using the following weighted average assumptions:

	Period ended September 30,	
	2013	**2014**
Valuation assumptions:		
Expected dividend yield	N/A	0%
Expected volatility	N/A	41.7%
Expected term (years)	N/A	0.3
Risk-free interest rate	N/A	0.04%

(c)

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

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PAYLOCITY HOLDING CORPORATION

Notes to the Unaudited Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(5) Benefit Plans (Continued)

gross pay. Contributions were approximately $248 and $382 for the three months ended September 30, 2013 and 2014.

(6) Commitments and Contingencies

Reseller Agreements

The Company had agreements with two organizations that sell the Company's offerings and services in defined areas of the country. The Company exercised its right to terminate the first reseller agreement and acquired certain assets of the reseller in May 2014 as described in Note 5 of the audited consolidated financial statements and related notes for the year ended June 30, 2014 included elsewhere in this prospectus. The Company paid the first reseller $614 during the three months ended September 30, 2013, under the reseller agreement and paid the first reseller $2,385 during the three months ended September 30, 2014 under the terms of the asset purchase agreement signed at closing in May 2014.

The initial term of the second reseller agreement commenced in June 2009 and is set to expire in June 2016 unless renewed or terminated. 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, has the right to terminate the agreement at any time. 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 $492 and $635 during the three-month periods ended September 30, 2013 and 2014, respectively.

(7) Earnings Per Share

For the periods presented prior to the Company's IPO, basic and diluted net loss per common share is presented in conformity with the two-class method required for participating securities. Concurrently with the closing of the Company's IPO on March 24, 2014, all shares of outstanding Preferred Stock automatically converted into 11,933 shares of the Company's common stock. Following the date of the IPO, the two-class method was no longer required as the Company has one class of securities issued and outstanding.

Prior to the conversion of the Redeemable Convertible Preferred Stock, holders of Series A and Series B Preferred Stock each were entitled to liquidation preferences payable prior and in preference to any dividends on any shares of the Company's common stock. In the event a dividend was paid on common stock, the holders of Preferred Stock were 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 did not have a contractual obligation to share in the losses of the Company. The Company considered its Preferred Stock to be participating securities and, in accordance with the two-class method, earnings allocated to

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PAYLOCITY HOLDING CORPORATION

Notes to the Unaudited Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(7) Earnings Per Share (Continued)

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 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 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 were entitled to participate should any common stock dividends have been declared but were 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 were entitled to participate should any common stock dividends be declared but were 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.

PAYLOCITY HOLDING CORPORATION

Notes to the Unaudited Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(7) Earnings Per Share (Continued)

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

	Three months ended September 30, 2013	Three months ended September 30, 2014
Basic net loss per share:		
Numerator:		
Net Loss	$ (44)	$ (4,875)
Less: Preferred dividend rights attributable to participating securities	(781)	
Net loss attributable to common stockholders	$ (825)	$ (4,875)
Denominator:		
Weighted-average shares used in computing net loss per share attributable to common stockholders:		
Basic (in thousands)	31,988	49,566
Weighted-average effect of potentially dilutive shares:		
Employee stock options and restricted stock units (in thousands)		
Diluted (in thousands)	31,988	49,566
Net loss per share attributable to common stockholders, basic and diluted	$ (0.03)	$ (0.10)

The following table summarizes the outstanding employee stock options, restricted stock units, shares purchasable via the employee stock purchase plan as of the balance sheet date, and redeemable convertible preferred stock that were excluded from the diluted per share calculation for the periods presented because to include them would have been anti-dilutive:

	Three months ended September 30, 2013	Three months ended September 30, 2014
Redeemable convertible preferred stock	11,933	
Restricted stock units		480
Employee stock purchase plan shares		27
Employee stock options	2,376	4,600
Total	14,309	5,107

RSAs were excluded from both basic and diluted earnings per share calculations for the three month period ended September 30, 2013 as the vesting conditions had not been met as of that date.

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PAYLOCITY HOLDING CORPORATION

Notes to the Unaudited Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(8) Income Taxes

The Company's quarterly provision for income taxes is based on an estimated annual income tax rate. 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, in the interim period in which they occur.

The Company recorded income tax (benefit) expense of $(362) and $28 for the three month periods ended September 30, 2013 and 2014, respectively. The Company's effective rate for the three months ended September 30, 2013 differed from statutory rates primarily due to federal and state research and development credits and expenses not deductible for income tax reporting purposes. The Company's effective tax rate for the three months ended September 30, 2014 differ from statutory rates primarily due to the existence of a valuation allowance recorded against the preponderance of the net deferred tax assets.

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. It established a valuation allowance on all of its net deferred tax assets except for deferred tax liabilities associated with indefinite-lived intangible assets during fiscal 2014, given 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. As of September 30, 2014, the Company had no unrecognized tax benefits.

On September 13, 2013, the IRS issued final regulations and re-proposed regulations that provide guidance with respect to (i) the treatment of materials and supplies, (ii) capitalization of amounts paid to acquire or produce tangible property, (iii) the determination of whether an expenditure with respect to tangible property is a deductible repair or a capital expenditure, and (iv) dispositions of MACRS property. The final regulations will be effective for the fiscal year ending June 30, 2015. Management is reviewing the regulations, but does not believe there will be a material impact on the Company's results of operations, financial position, or cash flows.

(9) Related Party Transactions

The Company entered into a Memorandum of Understanding ("Memorandum") and a Non-Competition and Non-Solicitation Agreement ("Non-Compete") with its Chairman Steve Sarowitz and Blue Marble, a separate legal entity owned by Mr. Sarowitz in June 2014.

The Memorandum established the ongoing market based terms between the Company and Blue Marble for services provided to or on behalf of each other. In addition, Paylocity obtained a right of first refusal on the sale of Blue Marble, an option exercisable starting three years from the date of the Memorandum to purchase Blue Marble, and the right of first refusal to purchase any acquisition target of Blue Marble outside the United States of America, all at fair market value. The Memorandum requires Blue Marble to obtain written consent from Paylocity should Blue Marble intend to acquire an entity that provides or partners with other service providers to provide products and services to clients located in the United States of America. The Company provides no management guidance to the entity, 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.

PAYLOCITY HOLDING CORPORATION

Notes to the Unaudited Consolidated Financial Statements (Continued)

(all amounts in thousands, except per share data)

(9) Related Party Transactions (Continued)

The Non-Compete agreement outlines the permissible activities and ongoing responsibilities of Mr. Sarowitz and Blue Marble including an obligation not to compete with services offered by Paylocity and an obligation not to solicit employees of Paylocity.

(10) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through November 7, 2014, the date at which the financial statements were available to be issued and has determined that there are no such events that would have a material impact on the financial statements.

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4,000,000 Shares

Paylocity Holding Corporation

Common Stock

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

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

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. *Other Expenses of Issuance and Distribution*

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

SEC registration fee	$	14,160
FINRA filing fee		18,778
Blue sky fees and expenses		5,000
Transfer agent and registrar fees		10,000
Accounting fees and expenses		125,000
Legal fees and expenses		250,000
Printing and engraving costs		50,000
Miscellaneous expenses		10,000
Total	$	482,938

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.

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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 January 1, 2011, 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 January 1, 2011 through September 30, 2014, we issued options to our employees to purchase an aggregate of 1,900,994 shares of our common stock under our 2008 Equity Incentive Plan, with exercise prices ranging from $2.28 to $7.04 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

		Incorporated by Reference				
Exhibit Number	**Description**	**Form**	**Filing No.**	**Filing Date**	**Exhibit No.**	**Provided Herewith**
1.1	Form of Underwriting Agreement.					X
2.1	Share Exchange Agreement, dated November 7, 2013.	S-1	333-193661	01/30/14	2.1	
3.1	First Amended and Restated Certificate of Incorporation of the Registrant.	S-1/A	333-193661	02/14/14	3.2	
3.2	Amended and Restated Bylaws of the Registrant.	S-1/A	333-193661	02/14/14	3.4	
4.1	Amended and Restated Investor Rights Agreement, dated June 29, 2012.	S-1	333-193661	01/30/14	4.1	

		Incorporated by Reference				
Exhibit Number	Description	Form	Filing No.	Filing Date	Exhibit No.	Provided Herewith
5.1	Opinion of DLA Piper LLP (US).					X
10.1	Form of Indemnification Agreement for directors and officers.	S-1	333-193661	01/30/14	10.2	
10.2	2008 Equity Incentive Plan and forms of agreement thereunder.	S-1	333-193661	01/30/14	10.3	
10.2.1	First Amendment to the 2008 Equity Incentive Plan, dated August 5, 2010.	S-1	333-193661	01/30/14	10.3.1	
10.2.2	Second Amendment to the 2008 Equity Incentive Plan, dated June 29, 2012.	S-1	333-193661	01/30/14	10.3.2	
10.3	2014 Equity Incentive Plan and forms of agreement thereunder.	S-1/A	333-193661	02/14/14	10.4	
10.4	Third Amended and Restated Executive Employment Agreement between Paylocity Corporation and Steven R. Beauchamp, dated February 7, 2014.	S-1/A	333-193661	02/14/14	10.5	
10.5	Employment Agreement between Paylocity Corporation and Steven I. Sarowitz, effective July 1, 2013.	S-1	333-193661	01/30/14	10.6	
10.6	Second Amended and Restated Executive Employment Agreement between Paylocity Corporation and Michael R. Haske, dated February 7, 2014.	S-1/A	333-193661	02/14/14	10.7	
10.7	Office Lease between 3850 Wilke LLC and Paylocity Corporation, dated January 12, 2007.	S-1	333-193661	01/30/14	10.8	
10.7.1	Amendment to Office Lease, dated January 5, 2011.	S-1	333-193661	01/30/14	10.8.1	
10.7.2	Amendment to Office Lease, dated May 6, 2013.	S-1	333-193661	01/30/14	10.8.2	
10.7.3	Amendment to Office Lease, dated August 6, 2014.	S-1	333-200448	11/21/14	10.7.3	
10.9	2014 Employee Stock Purchase Plan.	S-1/A	333-193661	02/14/14	10.9	
21.1	List of subsidiaries of the Registrant.	S-1	333-193661	01/30/14	21.1	
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.					X

Exhibit Number	Description	Incorporated by Reference Form	Filing No.	Filing Date	Exhibit No.	Provided Herewith
23.2	Consent of DLA Piper LLP (US) (included in Exhibit 5.1).					X
24.1	Power of Attorney (see page II-5 to the original filing of this registration statement on Form S-1).	S-1	333-200448	11/21/14	24.1	
101.INS	XBRL Instance Document.	S-1	333-200448	11/21/14	101	
101.SCH	XBRL Taxonomy Extension Schema.	S-1	333-200448	11/21/14	101	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	S-1	333-200448	11/21/14	101	
101.LAB	XBRL Taxonomy Extension Calculation Label Linkbase.	S-1	333-200448	11/21/14	101	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	S-1	333-200448	11/21/14	101	
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	S-1	333-200448	11/21/14	101	

(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.

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(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.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Arlington Heights, Illinois on the 8th day of December, 2014.

PAYLOCITY HOLDING CORPORATION

By: /s/ STEVEN R. BEAUCHAMP

Steven R. Beauchamp
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this amendment to the registration statement has been signed by the following persons in the capacities and on the dates indicated:

Name	Title	Date
/s/ STEVEN R. BEAUCHAMP Steven R. Beauchamp	President and Chief Executive Officer (Principal Executive Officer) and Director	December 8, 2014
/s/ PETER J. MCGRAIL Peter J. McGrail	Chief Financial Officer (Principal Financial and Accounting Officer)	December 8, 2014
* Jeffrey T. Diehl	Director	December 8, 2014
* Mark H. Mishler	Director	December 8, 2014
* Andres D. Reiner	Director	December 8, 2014
* Steven I. Sarowitz	Chairman	December 8, 2014
* Ronald V. Waters, III	Director	December 8, 2014
*By /s/ PETER J. MCGRAIL Peter J. McGrail Attorney-in-Fact		December 8, 2014