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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to

Commission file number: 0-24347

The Ultimate Software Group, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**65-0694077**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2000 Ultimate Way, Weston, FL	**33326**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(954) 331-7000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	**Name of Each Exchange on which Registered:**
Common Stock, par value $.01 per share	The Nasdaq Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yesþ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yeso No þ

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of Common Stock, par value $.01 per share, held by non-affiliates of the Registrant, based upon the closing sale price of such shares on the NASDAQ Global Select Market on June 30, 2013 was approximately $3.2 billion.

As of February 20, 2014, there were 28,296,712 shares of the Registrant's Common Stock, par value $.01, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

THE ULTIMATE SOFTWARE GROUP, INC.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (this "Form 10-K") of The Ultimate Software Group, Inc. and subsidiaries ("Ultimate," "Ultimate Software," "we," "us" or "our") may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our expectations or beliefs, including, but not limited to, our expectations concerning our operations and financial performance and condition. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict. Ultimate's actual results could differ materially from those contained in the forward-looking statements due to risks and uncertainties associated with fluctuations in our quarterly operating results, concentration of our product offerings, development risks involved with new products and technologies, competition, our contractual relationships with third parties, contract renewals with business partners, compliance by our customers with the terms of their contracts with us, and other factors disclosed in Ultimate's filings with the Securities and Exchange Commission. Other factors that may cause such differences include, but are not limited to, those discussed in this Form 10-K, including the risk factors set forth in Item 1A. Ultimate undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

UltiPro® and its related design are registered trademarks of Ultimate in the United States. This Form 10-K also includes names, trademarks, service marks and registered trademarks and service marks of companies other than Ultimate.

PART I

Item 1. Business

Overview

Ultimate Software is a leading provider of cloud-based human capital management ("HCM"). Ultimate's UltiPro software ("UltiPro") is a comprehensive, easy-to-use solution delivered primarily over the Internet to organizations based in the United States and Canada, including those with global employees. We believe we attained our leadership position through our focus on unified HCM, cloud technology, and strong customer relationships. At the close of 2013, we had more than 15 million people records in our HCM cloud.

UltiPro is designed to deliver the functionality businesses need to manage the complete employment life cycle from recruitment to retirement. The solution includes unified feature sets for talent acquisition and onboarding, human resources ("HR") management and compliance, benefits management and online enrollment, payroll, performance management, salary planning and budgeting for compensation management, succession management, reporting and analytical decision-making tools, and time and attendance. UltiPro has role-based features for HR professionals, executives, managers, administrators, and employees whether they are in or out of the office, including access to business-critical information on mobile devices such as the iPhone, iPad, and other smartphones and tablets.

We believe that UltiPro helps customers streamline HR and payroll processes to significantly reduce administrative and operational costs, while also empowering them to manage the talent in their workforces more strategically. UltiPro enables our customers to analyze workforce trends for better decision making, find critical information quickly and perform routine business activities efficiently.

We market our UltiPro solutions primarily to enterprise companies, which we define as companies with more than 1,500 employees, and mid-market companies, which we define as those having approximately 500-1,500 employees. Our mid-market customers have access to nearly all the features that our larger enterprise companies have through UltiPro, plus a bundled services package. Since many companies in the mid-market do not have information technology ("IT") staff on their premises to help with system deployment or ongoing management issues, we have created a bundled services package to give these customers a high degree of convenience by handling system configuration, business rules, and other situations for them "behind the scenes."

In October 2013, Ultimate acquired Employtouch, a Canadian-based corporation that developed TouchBase, a market-leading, tablet-based time collection and employee self-service device (the "Employtouch Acquisition"). See Note 4 of the Notes to Consolidated Financial Statements.

In November 2013, Ultimate acquired certain assets and liabilities of Accel HR, LLC, ("Accel HR") a Delaware-based limited-liability company located in Georgia, which has a history of providing comprehensive outsourcing support for organizations ranging from 500 to more than 25,000 employees (the "Accel HR Acquisition"). See Note 4 of the Notes to Consolidated Financial Statements.

Cloud Computing Model

Cloud computing is the current terminology for describing the delivery of software-as-a-service ("SaaS"). Market acceptance of cloud computing for mission critical enterprise applications has become increasingly common in recent years since software can be delivered cost-effectively, reliably, and securely to businesses over the Internet without the need for customers to purchase supporting software and hardware for an on-premise system or the need to keep IT people on staff to monitor and upgrade such a system.

We introduced our first subscription-based service solution over the Internet in December of 2000, and we began marketing our first multi-tenant SaaS HCM to enterprise companies in 2002. Since that time, we have significantly expanded our HCM offerings and enhanced our foundational technologies. Today, we develop our solutions using the latest advances in cloud computing and provide our customers with solutions that are highly functional, easy to use, configurable, and fast. Our cloud model is based on a multi-tenant architecture that is both open and secure with support for user experiences on both desktop and mobile devices. Our customers that have moved away from traditional on-premise software to our cloud-based service applications benefit by substantially reducing the cost and complexity typical of on-premise software implementations, customizations, and upgrades. Through cloud computing, we supply and manage the hardware, infrastructure, ongoing maintenance, and backup services for our customers. We install the latest version of our software for our customers, thereby reducing their need to buy and maintain their own IT resources. As a part of our cloud model, we also provide activation and training services to our customers as well as support services.

We provide our hardware, infrastructure, ongoing maintenance and backup services at three data centers: one located near Atlanta, Georgia, one located near Phoenix, Arizona, and another near Toronto, Canada. Our data center facilities are owned and operated by independent third parties, who provide redundant power, bandwidth, and physical security. Ultimate employees deploy, monitor, and manage our hardware and software systems in accordance with our security and data privacy policies, which are subject to examination by an independent third-party.

Market Share

UltiPro is marketed primarily through our enterprise and mid-market direct sales teams. Ultimate had approximately 2,700 customers as of the end of 2013. Based on our redefined target markets and on January 2014 market data from Hoover's/Dun & Bradstreet, we estimate our approximate market share to be 8 percent for enterprise companies, those with more than 1,500 employees, and 6 percent for mid-market companies, those with 500-1,500 employees.

Company Information

Ultimate is a Delaware corporation formed in April 1996 to assume the business and operations of The Ultimate Software Group, Ltd. (the “Partnership”), a limited partnership founded in 1990. During August 2006, Ultimate formed a wholly-owned subsidiary, The Ultimate Software Group of Canada, Inc. (“Ultimate Canada”), to accommodate our operations in Canada. There were no material assets or revenues in Canada as of or for the year ended December 31, 2013. Ultimate's headquarters is located at 2000 Ultimate Way, Weston, Florida 33326 and our telephone number is (954) 331-7000.

Capabilities of UltiPro

UltiPro is a comprehensive cloud-based solution designed to deliver the functionality businesses need to manage the complete employment life cycle from recruitment to retirement. The solution includes feature sets for talent acquisition and onboarding, HR management and compliance, benefits management and online enrollment, payroll, performance management, salary planning and budgeting for compensation management, succession management, reporting and analytical decision-making tools, time and attendance, and role-based self-service capabilities for executives, managers, administrators, and employees whether they are in or out of the office. UltiPro offers the following capabilities to our customers:

Role-Based Internet Access to Functionality. UltiPro provides Web access to workforce-related business functions, company communications, and reporting for everyone in our customer's organization, not just the HR department. The access and specific functionality are based upon our customer's process requirements and the individual user's role. We believe that

UltiPro's employee-facing Web applications can increase management and administrative efficiencies by providing immediate access to reporting, staff management processes and business intelligence for executives, and can reduce operating costs by eliminating the need for organizations to print and distribute paper communications, handbooks, forms, and paychecks. Ultimate also provides UltiPro functionality for use on mobile devices. Using tablets or smartphones, employees can manage their goals, provide feedback to managers, access their own personal information, such as pay statements, and can quickly access their company's employee directory to look up contact information or employee photos. In addition, managers can approve or deny daily workflow transactions—such as salary changes and paid time off-and can readily review goals, competencies, and accomplishments of their team members.

Rich and Highly Configurable Functionality. UltiPro has rich functionality built into the solution and provides extensive capabilities for configurability. As a result, we have found that our customers can avoid extensive customizations and yet are able to achieve a highly tailored solution to meet their specific business needs. Since UltiPro's feature-sets are unified, our customers are able to streamline their management of the total employment cycle and can generate strategic HR and talent management reports from UltiPro as their primary, central system of record for their employee data.

Flexible, Rapid System Setup and Configuration. UltiPro has been designed to minimize the time and effort required to set up and configure the system to address individual company needs. Largely because our UltiPro solutions deliver extensive functionality that can be configured to align with our customers' various business models with few customizations, our setup of new customers is faster and simpler than implementations typical of legacy, on-premise software.

Reduced Total Cost of Ownership. We believe that the UltiPro solution provides cost saving opportunities for our customers and that UltiPro is competitively priced. In addition, we believe that our current practices in activating the UltiPro solution result in cost savings for customers when compared with implementations of other similar solutions in the industry. The UltiPro customer may also reduce the administrative and IT support costs associated with the organization's HR, benefits and payroll functions over time. Administrative costs can be further reduced by providing an organization with greater access to information, streamlined HR processes and transactions, and control over reporting.

Modern Cloud Technologies. We have consistently focused on identifying leading technologies and practices and integrating them into our products. The primary characteristics of our technology and cloud architecture are:

- Multi-tenant model (multiple instances of UltiPro for different organizations can reside on one server) that allows each application component to run on a separate farm, or cluster, of load-balanced servers while still providing customer data security and segregation.
- Configurability that enables customers to achieve a highly tailored UltiPro experience for their businesses without incurring the high expense of custom software.
- Web services (a set of platform-neutral and vendor-independent protocols that enable application interactions over the Internet using Extensible Markup Language, or XML, and other Web technologies) that enable UltiPro customers to connect with other applications and data services easily and securely.
- Domain-driven, user-centered design framework that leverages industry-leading tools and technologies, including Microsoft's .NET platform, to streamline the complexities of our HCM domain and focus on how our users want to use UltiPro rather than expect them to change their behavior to accommodate our product.
- HTML-5 framework and responsive Web design for mobile-centric computing that enables a rich, dynamic user experience for UltiPro users on the smartphones or tablets of their choice.

Rich End-User Experience, Ease of Use and Navigation. We design our products to be user-friendly and to simplify the complexities of managing employees and complying with government regulations in the HR, payroll, and talent management areas. UltiPro uses familiar, consumer-style navigation, which we believe makes our solution convenient and easy to use. While traveling or out of the office, our customer's HR professionals, executives, managers, administrators, and employees can manage payroll and employee functions and run reports by accessing UltiPro over the Internet or find answers to key routine questions by using an UltiPro application on their mobile devices.

Comprehensive Customer Services and Industry-Specific Expertise. We provide several types of customer service: cloud services, professional setup and activation services, knowledge management (or training) services, payment services (tax filing and check printing), and ongoing product and customer support services. All our customer services are designed to create a positive, productive UltiPro experience for our customers. We have multiple avenues for our customers to give us feedback and recommendations on product enhancements, and we provide our customers a portal where they can choose to learn about UltiPro and Ultimate in the style that best suits them - online webinars, videos, instructional documents, online chats, customer communities, and other vehicles. We recognize the importance of issuing timely updates that reflect changes in tax and other regulatory laws and employ a dedicated research team to track jurisdictional tax changes for more than 13,000 tax codes included in UltiPro as well as changes in other employee-related regulations.

Managed Services. To further simplify the work lives of our customers' human resources and payroll people, we introduced UltiPro Managed Services in the fourth quarter of 2013 as a result of the Accel HR Acquisition. UltiPro Managed Services is designed for those customers who want to outsource some components of their HR, payroll, benefits, and HCM technology management functions without sacrificing the control of, or access to, their employee data that they enjoy with our cloud solution. Unlike other outsourced payroll or Human Resources Information System ("HRIS") services that typically take a one-size-fits-all approach, UltiPro Managed Services allows customers to select from a number of payroll management, HRIS, and/or benefits management services and combine them into a tailored solution that best suits their unique needs. Accel HR has provided these types of services to large and mid-market corporate customers in North America since 2004 and, since 2007, Accel HR partnered exclusively with Ultimate to provide these services.

UltiPro Standard Functionality and Optional Capabilities

UltiPro's standard functionality includes, but is not limited to, a set of role-based features that engage employees while allowing HR generalists, benefits compensation and payroll managers and business managers to develop, coach, evaluate and reward their people and meet organizational objectives. Business intelligence along with system configuration tools and integration capabilities support our customers' connections with third-party applications and providers. UltiPro also includes employee relations tools for managing disciplinary actions and grievances, and health and safety incidents.

In addition to UltiPro's HCM functionality, our customers have the option to purchase a number of additional capabilities on a per-employee-per-month ("PEPM") basis, which are available to enhance and complement the functionality of UltiPro and which are based on the particular business needs of our customers. These optional UltiPro capabilities currently include (i) the talent acquisition suite (recruitment and onboarding); (ii) the talent management suite (performance management, talent predictors, and succession management); (iii) compensation management; (iv) benefits enrollment; (v) time management; (vi) payment services (formerly referred to as "tax filing"); (vii) wage attachments; and (vii) other optional features (collectively, "Optional Capabilities"), which are described below.

Differences between capabilities available to our enterprise and mid-market customers are specified below. Unless otherwise specified, capabilities are included in both our enterprise and mid-market offerings.

UltiPro's Standard HR/Payroll Functionality

UltiPro can act as the gateway to business activities for a company's executives, management team, HR/payroll staff, administrators, and employees. Employees of customers can access UltiPro from standard Web browsers such as Microsoft Internet Explorer and Mozilla Firefox, view information and perform tasks in a language of their individual choice (most commonly English, Spanish, or French), set their personal preferences for the order and placement of home-page content, and set up access to any available page in one click. Ultimate believes that UltiPro allows our customers to improve service to their employees through better communications and to save time because managers and administrators can complete hundreds of common employee-related tasks, including administering benefits, managing staff and accessing reporting and business intelligence in real time, from one central solution. UltiPro also enables companies to provide secure, on-demand access to company and personal information for their employees over the Internet.

UltiPro's Standard HR/payroll functionality includes, but is not limited to, the following:

Human Resources Management. UltiPro manages all aspects of a person and their employment relationship regardless of where the employee resides. This includes personal details, skills and competencies, international identification documents, employment history. employment contracts (for those employees in countries that require them), performance, job and salary information, career development and preferences, and health and wellness programs. This allows single country or multinational organizations to easily manage and report on worldwide headcounts, and other critical business metrics. In addition, UltiPro facilitates the recording and tracking of key information for government compliance and reporting in the US, Canada and many other countries. This includes the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Health Insurance Portability & Accountability Act (HIPAA), regulations implemented by the Occupational Safety & Health Administration (OSHA), workers' compensation regulations, the Family Medical Leave Act (FMLA), and Equal Employment Opportunity (EEO) laws for the United States. UltiPro also enables compliance with HIPPAA confidentiality requirements for protecting sensitive data such as employee social security numbers.

Benefits Management. UltiPro allows companies to automate the matching of health, welfare, dental, vision, and other benefits they offer their employees, including configuration and administration of benefit plans and employee and employer contributions. UltiPro also enables employees to check benefit options and coverage online. UltiPro eliminates the need for duplicate rules, duplicate data entry, and reconciliation reporting because it stores details for deductions and benefit plans in one common table. These features include rules for coverage, premium and employer match computations, and eligibility and participation determinations. UltiPro also allows companies to maintain and administer paid time off benefits, such as vacation (including calculating benefit accrual amounts), track leave-time taken, and facilitate the response to employee leave requests.

Payroll. UltiPro's payroll features a powerful engine that handles hundreds of payroll-related computations intended to minimize the customer's need for side calculations or additional programming. For example, UltiPro delivers complex wage calculations such as average pay rates for overtime calculations, shift premiums, garnishments and levy calculations. With UltiPro, a company's central payroll department, remote offices or multiple divisions can process payroll and can define and report on who completes each specific processing step based on the exact needs of the organization, thus supporting appropriate separation of duties. All of this is managed through an easy-to-use dashboard of payroll tasks and statuses. Moreover, Ultimate directly handles complex and ongoing federal, state and local tax compliance updates with a dedicated tax research team so that customers can stay compliant.

Tablet-Based Time clock. UltiPro TouchBase, which was introduced in connection with the Employtouch Acquisition, provides our customers an interactive mobile time clock device that collects time punches, as well as highlights the information most critical to employees and managers via an engaging activity stream. With UltiPro TouchBase, our customers can capture employee time on a touchscreen tablet device, collecting employee-validated data for cost accounting and payroll; can leverage photos for accurate capture of employee time-entry, avoiding 'buddy punches'; and can validate transactions using PIN (Personal Identification Number) entry, HID (Human Interface Device), RFID (Radio Frequency Identification), magnetic swipe or barcode.

Role-Based Self-Service. Authorized managers have self-service access to staff information such as salary, compensation history, key dates and emergency contacts, with reporting and workforce analysis tools to facilitate decision-making. A customer's managers can view and update staff information, manage department activities, post job openings, leverage recruiting and hiring tools, and perform queries on workforce data. UltiPro's document management features can be used to house and categorize employee-related documents such as drivers' licenses, consent forms, and completed I-9 forms with required identification. Administrators and managers have the ability to attach files in standard formats such as Microsoft Word, PDF, JPEG, and spreadsheets to employee files. The documents can be grouped and sorted to individual requirements, as necessary.

Employees also may be given immediate, security-protected access to view their own pay details on a mobile device or the Web, and benefits summaries, frequently used forms, and company information on the Web. They can also update personal information such as address, phone number, emergency contacts, and skills; change their preferences such as direct deposit accounts and benefits selections; make routine requests such as asking for vacation time; and enroll in training.

UltiPro Business Intelligence. UltiPro Business Intelligence uses a business intelligence platform from IBM Cognos Corporation, a third-party provider, for HR, payroll, and talent management reporting and analysis. Accessed via the Web, UltiPro Business Intelligence gives users the ability to access data across the UltiPro solution - from HR, payroll to benefits administration and enrollment, compensation, talent acquisition and onboarding, talent management, compensation, compliance, year-end data, and more - and enables them to create, modify, and distribute workforce-related reports and notifications. UltiPro includes a pre-configured data mapping library and pre-authored reports and analytics. Controlled by role-based security, everyone in a customer's organization—from line managers to executives can have immediate access to key workforce metrics, and they can personalize their own user experience to show the reports they want to see and how they want to see them. We believe that UltiPro Business Intelligence gives our customers significant strategic value for managing their workforce-related functions and saves them labor time and money by eliminating or reducing the need for internal technology people to generate hundreds of individual reports for disparate executive and management needs.

Other Key Capabilities. UltiPro includes system configuration tools such as graphical workflow configuration and platform configuration to allow customers to extend UltiPro with new secure, reportable fields. In addition, UltiPro offers role-based security, flexible business rules, and an easy-to-use content management tool. Conditional workflow enables organizations to authorize HR/payroll staff, managers, or supervisors to manage key HR processes via UltiPro, expediting business activities such as hiring an employee or making a salary increase. UltiPro workflow is configurable based on customer need and includes numerous pre-configured processes based on industry best-practices. System administration is designed to enable non-technical users to administer UltiPro's role-based security, built-in conditional workflow, and system business rules, as well as to enable system administrators to post company communications, link to external Web sites and tailor functionality to reflect the customer's own company user experience requirements. Enterprise Integration Tools also are included to provide the ability to interface with third-party cloud and on-premise applications and providers such as general ledger, payment services, time clocks, banks, 401(k) and benefits providers, check printing services and unemployment management services.

UltiPro's Optional Capabilities

UltiPro Talent Acquisition is a suite of add-on products comprised of Recruitment and Onboarding.

i) Recruitment. UltiPro Recruitment automates the entire recruiting process, enabling hiring managers, recruiters, and HR staff to track and manage all recruitment tasks such as posting open jobs, reviewing resumes, screening candidates, and scheduling interviews through convenient Web access. In the second quarter of 2014, we expect to offer our customers a completely new, internally developed recruiting solution that is designed to transform the recruiting process by increasing candidate engagement and simplifying the work of recruiters. The new solution, UltiPro Recruiting, is designed to be a candidate-centric solution and has a consumer-like interface to attract and keep top talent engaged, reducing the typical 40 percent to 80 percent online application drop-off rate typically occurring with traditional applicant tracking solutions. UltiPro Recruiting includes an appealing user interface, gamification, and collaboration tools. It is fully mobile and integrates with popular social networks such as LinkedIn and Twitter. Rather than being restricted to limited profile information and résumés typical of traditional solutions, candidates can build an in-depth online presence that gives recruiters and hiring managers a more complete understanding of who they are.

ii) Onboarding. UltiPro Onboarding is a comprehensive solution that provides employers the ability to automate the process of bringing a new employee into an organization and helping to speed time to productivity. Employees can be given a Web-based “welcome” package as part of a step-by-step onboarding process that is easily configurable to meet the specific needs of an organization. It includes such activities as obtaining required government and procedural paperwork, including electronic signatures and document storage; provisioning necessary equipment and job-specific tools such as office location, computer equipment, and uniforms; ensuring enrollment in necessary training programs; and instilling the employer's core values and business objectives.

UltiPro Talent Management is a suite of add-on products comprised of Performance Management, Talent Predictors, and Succession Management.

i) Performance Management. UltiPro Performance Management helps companies maximize the development of their people and improve employee satisfaction by automating and enhancing the performance process, using competency-based employee development. UltiPro Performance Management streamlines the processes of evaluating performance and completing performance reviews, making competency assessments, identifying top performers for succession planning, and tracking and executing coaching, training and development plans. The solution also supports a continuous process of capturing real-time employee feedback from a social network and, through our mobile solution, makes goal management, talent profile information, employee observations, and goal journaling convenient for employees.

ii) *Talent Predictors*. In 2013 we added a new predictive analytics solution that is embedded in the talent card of the UltiPro Talent Management suite, where predictive metrics and indicators are available to support manager decisions. The new predictors are based on statistical algorithms we developed over the course of more than two years and validated with numerous customers. UltiPro’s predictive metrics help managers to determine the best actions to take for further developing or changing the career trajectory of employees reporting to them. UltiPro’s predictive analytics can also help organizations reduce turnover and improve employee engagement. For example, organizations can set tolerances for certain predictive metrics such as the Retention Predictor, giving a manager or HR generalist the ability to see immediately if an employee exceeds the tolerance level they have defined as "risk of leaving" and, thereby, providing them an early warning to take an appropriate action to increase the chances of that employee staying.

iii) *Succession Management.* With UltiPro Succession Management, organizations can involve company leadership, managers, and individuals in an ongoing, collaborative process of succession planning. Employees can manage their own talent profiles-updating factors that influence succession readiness such as mobility preferences, languages, education, accomplishments, and competencies-to ensure that leadership has a deeper understanding of the talent landscape at their organization. Visible to employees and managers, UltiPro's employee “talent card” provides a consolidated and comparative view of multiple succession-readiness factors, which then can be used in both decision-making and career development processes.

Other Optional Capabilities include, but are not limited to, the following products, which are supplemental to UltiPro's standard HR/payroll capabilities:

Compensation Management. UltiPro Compensation Management includes Salary Planning, Salary Budgeting and Incentive Compensation Plans capabilities. This expanded solution is designed to support executives, managers and compensation analysts with salary increase allocations and to incentivize employees by giving them visibility into their individual compensation plans. Highly configurable, including multi-currency, UltiPro Compensation Management makes it easy for companies to manage their unique compensation plans and salary award processes with flat amounts, percentages and unit-based compensation such as Restricted Stock Unit awards. Managers can review their salary budgets and merit pool guidelines and determine the best way to allocate pay increases to their employees within their approved budget parameters. Once managers decide on the allocations, they can submit pay increases through UltiPro Payroll.

Benefits Enrollment. With UltiPro Benefits Enrollment, employees can enroll in the appropriate benefit plans for their individual needs online, either at work or from home, during defined open enrollment periods. Employees can also choose to quickly renew their benefits in a single click and are guided to make the right selections based on prerequisites that link benefit plans together. UltiPro mobile capabilities enable employees to update their retirement contributions on the go. Benefits administrators can configure the enrollment process and messaging to make the process easy for employees and can monitor the enrollment progress. UltiPro Benefits Enrollment also guides employees through the benefit and personal information changes necessary as a result of life events such as getting married, having a baby or moving. UltiPro also delivers more than 70 predefined Benefit Carrier templates to facilitate the electronic feeds required for insurance carriers and plan administrators, reducing the need for manual reporting of employee census information, participant coverage, and billing reconciliation.

Time, Attendance, and Scheduling (designed for enterprise companies). Through a strategic partnership, we have the right to market and distribute an independent third party's time and labor management product as part of the UltiPro solution. We have branded this product as UltiPro Time and Attendance, marketing the components as UltiPro Time and Attendance, UltiPro Leave Management, and UltiPro Workforce Scheduling (collectively, "UTA"). Ultimate is the single-source contact for customer implementations and ongoing solution support for UTA. UTA is Web-based and integrated with UltiPro's payroll, HR, and benefits functionality. UltiPro Time and Attendance tracks time and attendance labor metrics and supports a variety of time-capture mechanisms. UltiPro Leave Management includes all of the functionality required to effectively track and manage employee leave. UltiPro Workforce Scheduling features industry-specific employee scheduling options to ensure that organizations in different environments deploy employees in an efficient and legislatively compliant manner.

Time Management (designed for mid-market companies). UltiPro Time Management delivers the functionality and flexibility needed to manage employee time and attendance efficiently and provides Web access to real-time employee time and labor information. UltiPro Time Management provides companies with the tools to proactively prevent issues that negatively impact business performance, such as employee coverage gaps, labor law violations, and excess labor spending. Fully integrated scheduling, time and attendance, and leave management capabilities reduce payroll expenditures and streamline payroll and workforce management processes.

Payment Services. We have the right to market and distribute an independent third party's tax filing solution that we have branded UltiPro Payment Services ("UltiPro Payment Services"). With this solution, companies are able to meet all Federal, state, and local payroll tax filing obligations quickly and easily. The UltiPro solution saves payroll staff time by eliminating the administrative burdens associated with tax filing. UltiPro Payment Services enables businesses to deposit federal, state, and local tax payments for more than 13,000 tax codes via electronic funds transfer or check and automates filing for monthly, quarterly, and annual tax returns.

Wage Attachments. For organizations required to process third-party payments on behalf of their employees for items such as child support, tax levies, and creditor garnishments, UltiPro Wage Attachments provides the means to effectively streamline and manage the payment process. UltiPro Wage Attachments eliminates the burden associated with payments to third parties by using information entered and calculated in UltiPro, so there is no need to manage payment processing or analyze varying disbursement schedules for multiple jurisdictions. We ensure that each third-party payment is made according to the designated payment method and reaches its required destination within the assigned timeframe.

Other Optional Capabilities. We offer a number of additional HR and payroll-related services to extend the value of UltiPro, including test environment services, W-2 print services, pre-employment screening, paycheck modeling, pay cards, unemployment tax management, employment verification services, employee assistance, health and wellness, and work/life balance programs. In addition, we offer UltiPro Federated Single Sign-On for standards-based identity management by leveraging Microsoft's Active Directory Federated Services infrastructure as well as single-sign-on capabilities through our partner Ping Identity. These solutions help improve and simplify data security by enabling individuals to use a single login credential (such as a network login) to seamlessly access UltiPro over the Internet.

Technology

We strive to use the most modern and capable technologies available for delivering solutions that are flexible, easy to use, fast, and secure. Major characteristics of our cloud application platform include, but are not limited to, the following:

Multi-tenancy. As a Software-as-a-Service ("SaaS") provider, we use a multi-tenant cloud model that allows us to support multiple customers on a single set of systems while maintaining performance, security, and reliability. We manage and maintain our solutions for our customers, including all hardware and software upgrades. Our customers benefit by reducing their need to keep their own IT resources on staff for UltiPro solutions. Our cloud customers also benefit from having the most current version of UltiPro installed as soon as it is available.

Configurability. We have invested in our own technology and approaches for enabling application and system configurability, enabling customers to achieve a highly tailored solution while minimizing or eliminating the need to create custom code.

Openness and Connectivity. We leverage widely adopted technology and industry standards for exposing data and functionality via application programming interfaces (APIs). Customers can access their HCM data based on these standard, open, and secured connections in order to link to their in-house systems, third-party cloud applications, and other systems that require data feeds such as benefits providers. Our UltiPro Carrier Network (UCN) leverages industry-leading solutions from Informatica, allowing Ultimate to create standard, reusable connectors that support the unique data transfer requirements of individual benefits providers, simplifying both the development and maintenance of these connections. Ultimate also supports a number of pre-packaged connectors for solutions that expand or extend the functionality included in UltiPro. These packaged integrations include, but are not limited to: Yammer, a provider of enterprise social networking solutions; CERTPOINT, a provider of learning management solutions; and Ping Identity, which offers single-sign-on capabilities for business applications.

Domain-Driven, User-Centered Design. Our solution design approach includes domain-driven design, which provides a streamlined process for developing software with the complexities of an HCM domain in alignment with the principles of a service-oriented architecture (SOA). A key focus of our user-centered design is to optimize the overall user experience of our customers and to maximize user engagement. We have invested significant resources in usability design and testing to create a consumer-grade experience that is flexible, responsive, and personalized. In the design of the user-experience, our emphasis is on how users want to use the product rather than the expectation that users will change their behavior to accommodate the product.

Mobile-Centric User Experience. In addition to the user experience capabilities available through Microsoft.NET, Ultimate uses Hypertext Markup Language version 5 (HTML5) and responsive Web design approaches to deliver flexible user experiences for smartphones and tablets. This mobile framework supports applications delivered through multiple browsers and automatically adapts to screen size and orientation and takes advantage of gesture-based capabilities. Other features of our mobile-centric user experience include search for both people data and functionality, configurability for individual users that allows them to drag and drop individual content 'gadgets' and menu controls, and favorite-specific functionality for quick access.

Workflow. Ultimate supports numerous transactions and operational processes for our customers. These processes are frequently unique to an individual customer and typically require multiple steps, approvals, data input, and confirmations. To support our customers' unique requirements, UltiPro includes configurable business process automation, or workflow, which enables customers to automate processes based on their own needs and change these processes over time without custom software code.

Business Intelligence. Ultimate provides sophisticated data query and report authoring via IBM Cognos, a leading suite of business intelligence tools. Our customers can access reports and conduct data queries from a Web browser and are able to apply on-line analytical processing to multidimensional data cubes for exploring data on employees graphically and statistically from diverse angles. We maintain a link between Cognos' report catalog and UltiPro's data dictionary, eliminating the necessity for customers to create and maintain ad hoc reporting catalogs on their own. We also maintain a BI Exchange, an online community where Ultimate professionals and customers can post, download, and share standard reports. We have unified security for the data elements across UltiPro and Cognos instances so that role-based security controls data access across both solutions. We also provide single sign-on to simplify and secure user access.

Data Centers for Cloud Offerings

Ultimate's Cloud Offerings ("Cloud Offerings") provide on-line access to comprehensive HCM functionality for organizations that need to simplify the IT support requirements of their business applications. As a part of our Cloud Offering services, Ultimate provides the hardware, infrastructure, ongoing maintenance and backup services for our customers at three data centers. The data center located near Atlanta, Georgia, is owned and operated by Quality Technology Services (“QTS”). The data center located near Toronto, Canada, is owned and operated by Savvis Communications Canada, Inc. (“Savvis") and the data center located in Phoenix, Arizona, is owned and operated by IO Phoenix One, LLC.

Ultimate's use of the data center located near Atlanta, Georgia, is governed by a Master Space Agreement dated June 1, 2009 with Quality Technology Services Metro, LLC (“QTS Metro”). Pursuant to the terms of the QTS Agreement, Ultimate may from time to time submit orders for the use of certain physical space within the data centers for hosting Ultimate's hardware equipment, as well as Internet connectivity services, security, power and generator back-up, environmental controls and access controls. The QTS Agreement provides that any service order will automatically renew for successive renewal terms, unless either party notifies the other party in writing at least sixty days prior to the end of the then current term that there will be no such renewal. Furthermore, the QTS Agreement may be terminated at any time by either party thereto, if: (i) the non-terminating party breaches any material term of such QTS Agreement and fails to cure such breach within 10 days after receipt of written notice; (ii) the non-terminating party becomes the subject of a voluntary or involuntary proceeding relating to insolvency, bankruptcy, receivership, liquidation, or reorganization; or (iii) a court or other government authority having jurisdiction over the services prohibits the furnishing of services governed by such QTS Agreement.

Ultimate's use of the data center located near Toronto, Canada, is governed by a Master Services Agreement dated April 30, 2013 (the “Savvis Agreement”) between Ultimate's wholly owned subsidiary Ultimate Canada and Savvis. Pursuant to the terms of the Savvis Agreement, Ultimate Canada has use of certain physical space within the data center for hosting Ultimate Canada's hardware equipment, as well as Internet connectivity services. The Savvis Agreement contains provisions relating to data security and access to the data center. Upon placing a service order, Ultimate Canada is guaranteed certain pricing terms and is committed to minimum usage levels for a period of at least 36 months from the service effective date. The Savvis Agreement will renew on a month-to-month basis unless either party gives at least sixty days written notice prior to the completion of the applicable term that there will be no such renewal. The Savvis Agreement provides that its term will end upon the expiration of the term of the last-executed service order. Ultimate has guaranteed the payment of all amounts due from Ultimate Canada to Savvis under the Savvis Agreement.

Ultimate's use of the data center located near Phoenix, Arizona is governed by a License and Master Services Agreement dated February 27, 2012 (the "IO Phoenix Agreement") with IO Phoenix One, LLC. Pursuant to the terms of the IO Phoenix Agreement, Ultimate has use of certain physical space within the data center for hosting Ultimate's hardware equipment, as well as Internet connectivity services. The IO Phoenix Agreement contains provisions relating to data security and access to the data center. Ultimate is guaranteed certain pricing terms and is committed to minimum usage levels for a period of at least 36 months from the effective date. The IO Phoenix Agreement will automatically renew thereafter for additional terms of one year unless either party gives written notice prior to the completion of the applicable term that there will be no such renewal. Ultimate must give written notice within 60 days while IO Phoenix must give written notice within 120 days.

Pricing

Our Cloud Offerings are designed to provide an appealing pricing structure to organizations that prefer to minimize the initial cash outlay associated with typical capital expenditures for traditional on-premise products. Our cloud customers purchase the right to use UltiPro on an ongoing basis for a specific term in a shared or dedicated hosted environment, and the arrangement can typically be renewed after its initial term has expired. In the shared environment, Ultimate provides an infrastructure with servers shared among many customers who use a Web browser to access the application software through the related data center. In the dedicated environment, the customer does not share servers with other customers but rather has its own set of servers. The pricing for our Cloud Offerings, including both the hosting element as well as the right to use UltiPro, is on a PEPM basis.

Research and Development Activities

Ultimate incurs research and development expenses, consisting primarily of software development personnel costs, in the normal course of our business. Such research and development expenses are for enhancements to our existing products and for the development of new products. During 2013, 2012 and 2011, we spent $86.8 million, $65.9 million and $51.4 million, respectively, on research and development activities, gross of capitalized software during 2013 and 2012. During 2013 and 2012, $19.0 million and $5.2 million, respectively, of research and development expenses were capitalized for computer software development costs related to an internal-use development project that is expected to be offered in the future as a cloud product only. During 2011 there was no research and development expenses capitalized. Certain components of the capitalized development project are expected to be ready for their intended use during 2014 with the majority of the development project expected to be complete thereafter. Amortization for the components of the development project that are expected to be complete in 2014 will begin when they are ready for their intended use.

Customer Services

We believe that our focus on delivering our customers a positive and productive UltiPro experience has differentiated Ultimate in the marketplace and is critical to the quality of Ultimate's comprehensive service solution. We provide our customer services in two broad categories: (i) professional services and (ii) customer support services and product maintenance. Additionally, we provide services associated with the delivery of our cloud-based solutions. These services include, but are not limited to, purchasing and supporting hardware and system software; installing new versions of UltiPro; and backing up customer data.

Professional Services. Ultimate's professional services include system setup and activation (i.e., implementation), customer relationship management ("CRM"), and knowledge management (or training) services. We believe that our setup and activation consulting services are differentiated from those of other vendors by speed, predictability and completeness. Our successful record with rapid system activation and implementations is due, we believe, to our standardized methodology, long-tenured consultants, highly configurable product functionality, and comprehensive conversion and integration tools.

Ultimate has a long-tenured team of functional and technical consultants who are dedicated to assisting customers with rapid deployments. In addition, we provide our customers with the opportunity to participate in formal training programs conducted by our knowledge management services team, as well as online scheduled courses and on-demand training. Training programs are designed to increase our customers' ability to use the full functionality of our products, thereby maximizing the value of our customers' investments. Courses are designed to align with the stages of implementation and to give attendees hands-on experience with UltiPro. Trainees learn such basics as how to enter new employee information, set up benefit plans and generate standard reports, as well as more complex processes such as defining company rules, configuring the system and creating custom reports. Ultimate maintains training facilities in Atlanta, Georgia; Schaumburg, Illinois; Dallas, Texas; Santa Ana, California; and at our headquarters in Weston, Florida. Ultimate rents training facilities in other locations, such as Toronto, Canada, on an as-needed basis. In addition to offering classes at these facilities, we conduct Web-based training, and provide recorded on-demand training as well as "Quick Tours" for rapid assistance in specific areas of the solution. After our customers have processed their first live payroll using UltiPro (referred to as going "Live") and have been turned over to our customer support and maintenance program, we assign a customer relationship manager to the account to assist customers obtaining maximum value of the UltiPro solution, connect with other Ultimate users and advanced business analytics. The CRM team also focuses a large portion of its time on customer retention, which is an important aspect of Ultimate's long-term business model.

Customer Support and Maintenance. We offer comprehensive and on-going maintenance services and technical support. These services have historically been purchased by all of our customers, and Ultimate had a recurring revenue customer retention rate which exceeded 96% in 2013. Ultimate's customer support services include: software updates that reflect tax and other legislative changes; a named customer service representative; telephone support 24 hours a day, 7 days a week; unlimited access to Ultimate's employee tax center on the Web; seminars on year-end closing procedures; a customer blog; and periodic newswire emails. In addition, our customer support services team maintains a Customer Success Portal for our customers where customers can submit inquiries and service requests as well as search a knowledge base of information for instant answers to questions, holds an annual national user conference and arranges for Ultimate professionals to attend smaller, user-organized user group meetings on a routine basis throughout the United States.

Customers

As of December 31, 2013, Ultimate provided our UltiPro solutions to approximately 2,700 customers. Ultimate's customers represent a wide variety of industries, including manufacturing, food services, sports, technology, finance, insurance, retail, real estate, transportation, communications, healthcare and other services. For each of the three years ended December 31, 2013, no customer accounted for more than 10% of total revenues.

Sales and Marketing

We market and sell our products and services primarily through our direct sales force.

Our direct sales force includes business development vice presidents, directors and managers who have defined territories, typically geographic. The sales cycle begins with a sales lead generated through a national, corporate marketing campaign or a territory-based activity. In one or more on-site visits, phone-based sales calls, or Web demonstrations, sales managers work with application and technical sales consultants to analyze prospective client needs, demonstrate Ultimate's UltiPro solutions and, when required, respond to requests for proposals. The sale is finalized after customers complete their internal sign-off procedures and the terms of the contract are negotiated and signed.

With a sale of the Cloud Offering , the agreement generally requires PEPM fees based on company size, and bundled fees for implementation and training. Typical payment terms include a deposit at the time the contract is signed and ongoing PEPM payments on specific payment dates designated in the contract, usually tied to the Live date.

We support our sales force with a comprehensive marketing program that includes public relations, advertising, direct mail, trade shows, seminars and workshops, email marketing, social media marketing, and Web marketing. Working closely with the direct sales force, customers and strategic partners, our marketing team defines positioning strategies and develops a well-defined plan for implementing these strategies. Our marketing services include market surveys and research, overall campaign management, creative development, demand generation, results analysis, and communications with field offices, customers, and marketing partners.

Intellectual Property Rights

Ultimate's success is dependent, in part, on our ability to protect our proprietary technology. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We do not have any patents or patent applications pending.

Competition

The market for our products is highly competitive. Our products compete primarily on the basis of technology, delivered functionality, price/performance and service.

Ultimate's competitors in our enterprise market include (i) large service bureaus, primarily Automatic Data Processing Inc. ("ADP") and, to a lesser extent, Ceridian; and (ii) companies, such as PeopleSoft/Oracle, Lawson, and Workday that offer human resource management and payroll software products for use on mainframes, client/server environments and/or Web servers. In our mid-market, Ultimate's competitors include payroll service providers, such as ADP, Ceridian and Paychex.

Backlog

Backlog consists of our UltiPro cloud-based solutions and, to a lesser extent, sales of services related to our Cloud Offering on a stand-alone basis to customers who already own a perpetual license ("Base Hosting") under signed contracts for which the services have not yet been delivered. At December 31, 2013, Ultimate had backlog of $160.0 million compared to $136.7 million as of December 31, 2012. Ultimate expects to fill approximately $134.5 million of the backlog during 2014. Ultimate does not believe that backlog is a meaningful indicator of sales that can be expected for any future period. There can be no assurance that backlog at any point in time will translate into revenue in any subsequent period.

Employees

As of December 31, 2013, Ultimate employed 1,913 persons. Ultimate believes that our relationships with employees are good, and that belief is validated by Ultimate's ranking of #20 on FORTUNE's 2014 "100 Best Companies to Work For" list and Ultimate's ranking of #9 on FORTUNE's 2013 "100 Best Companies to Work For" list. Ultimate's history of good employee relationships is further validated by Ultimate's ranking of #25 on FORTUNE's 2012 list and the Great Place to Work Institute's ranking of Ultimate as the #1 Best Place to Work in America among medium-sized companies for both 2009 and 2008 and # 3 in both 2007 and 2006. However, competition for qualified employees in Ultimate's industry is generally intense and the management of Ultimate believes that our future success will depend, in part, on our continued ability to attract, hire and retain qualified personnel.

Available Information

Ultimate's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those reports and any registration statements, including but not limited to registration statements on Form S-3, are available free of charge on Ultimate's website at www.ultimatesoftware.com as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission ("SEC"). Information contained on or accessible through Ultimate's website is not part of this Form 10-K. You may record and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains the reports, proxy and information statements and other information regarding us that we file with the SEC. You can access the SEC's website at www.sec.gov.

Item 1A. Risk Factors

Ultimate operates in a rapidly changing and dynamic business environment that involves risk and uncertainty. The following discussion is a description of risks and uncertainties associated with our business that could cause, or contribute to causing, actual results to differ materially from expectations. These are not all of the risks we face. We may be adversely affected by risks not currently known or that we currently consider immaterial.

We may be adversely affected by substantial quarterly fluctuations in our revenues and operating results.

Our quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. Our quarterly operating results may fluctuate as a result of a number of factors, including:

- Increased expenses from one quarter to another (especially as they relate to product development and sales and marketing);
- Spending patterns of our customers;
- Timing of our product releases;
- Increased competition;
- A drop in the near-term demand for our products, particularly in relation to professional services; and
- Announcements of new products by Ultimate or by our competitors.

We establish our expenditure levels based upon our expectations as to future revenues, which are comprised primarily of recurring revenues and services revenues. If revenue levels are below expectations, particularly services revenues which are more subject to variations between periods than recurring revenues, expenses can be disproportionately high in a particular period. For example, while sales production could be at our level of expectations, depending on the spending patterns of our customers including the timing in which they begin the implementation of UltiPro and the extent to which they use Ultimate's resources, the immediate reported total revenues could be lower than expected.

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

Due to the method of accounting for sales from our Cloud Offering, a change in the period of the time from contract date to the Live date ("Time to Live") could negatively impact the amount of recurring revenues recognized in a reporting period.

Sales production, as it pertains to sales of cloud units, is not reflected in recurring revenues and related variable costs in our consolidated statements of operations until the related customer goes Live. In our internal business model, we make certain assumptions, among other things, with respect to future sales production, revenue growth, variable costs, personnel costs and other operating expenses.

Our expectations for recurring revenue growth are typically established based on combinations of actual sales production (for those units that have been previously sold but have not yet gone Live) and expected future sales production, together with expectations as to the Time to Live periods. Estimates for Time to Live periods are usually based on (i) specific estimates (for certain backlog sales) provided by our field personnel, which estimates include factors and assumptions that are not within the control of our field personnel; and (ii) estimates for Time to Live periods for other cloud sales (including backlog sales without specific estimates at that point in time), as well as expected sales, which are typically based on assumptions derived from our historical Time to Live periods. These estimates are adjusted periodically, and prospectively, based on management's assessment of Time to Live for backlog sales at that point in time. Factors that could impact the estimates for Time to Live periods include, but are not limited to, customer size (as larger customers may have longer implementations, tend to go Live on more UltiPro features and have more interface and integration requirements), and the number of complementary products sold in addition to UltiPro to a single customer, which in some cases involve customers' desire to go Live on all products at once, as compared to UltiPro first followed by complementary products.

To the extent there are changes in the underlying assumptions which drive Ultimate's expected revenue growth from cloud sales, which include, but are not limited to, actual sales production achieved and changes in Time to Live periods, our recurring revenues, as reported in our consolidated statements of operations, could differ materially from levels we expected to achieve.

Our stock price has experienced high volatility, may continue to be volatile and may decline.

The trading price of our Common Stock has fluctuated widely in the past and may do so in the future, as a result of a number of factors, many of which are outside our control, such as:

- The volatility inherent in stock prices within the sector in which we conduct business;
- The volume of trading in our Common Stock, including sales upon exercise of outstanding stock options and upon the vesting of restricted stock and restricted stock units;
- Failure to achieve earnings expectations;
- Changes in our earnings estimates by analysts;
- Variations in our actual and anticipated operating results, including, but not limited to, prospective financial guidance provided by Ultimate to our investors and research analysts; and
- The announcement of a merger or acquisition.

Stock markets have experienced extreme price and volume fluctuations that have affected the market prices of many technology and computer software companies, particularly Internet-related companies. Such fluctuations have often been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could adversely affect the market price of our Common Stock.

Further, securities class action litigation has often been brought against companies that experience periods of volatility in the market prices of their securities. Securities class action litigation could result in substantial costs and a diversion of our management's attention and resources.

We have incurred operating losses in the past and may incur operating losses in the future.

We have incurred operating losses in the past and we may incur operating losses in the future. As of December 31, 2013, our accumulated deficit was approximately $7.8 million as compared with $33.3 million as of December 31, 2012. If our future total revenues do not grow at a higher rate than that of our total expenses, our future operating results could be negatively impacted. Recent revenue growth should not be considered as indicative of our future performance, particularly with respect to the recent economic environment and the potential impact on our revenue streams, as our subscription revenues from our Cloud Offering are largely impacted by the employee growth or contraction of our existing customer base and customer spending patterns have a significant impact on our services revenues with respect to both the timing and extent of our services they purchase.

Adverse changes in general economic or political conditions could adversely affect our operating results.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic and political conditions. The state of the economy and the rate of employment, which deteriorated in the recent broad recession, may deteriorate in the future. If weakness in the economies of the U.S. and other countries persists, many customers may delay or reduce technology purchases. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies, increased price competition, customers purchasing fewer services or Optional Features than they have in the past, customers requesting longer payment terms, customers failing to pay amounts due and slower collections of accounts receivable. In addition, increased unemployment could result in significant decreases in our recurring revenues from our existing customer base as we price our ongoing recurring revenues on a PEPM basis, subject, in many cases, to minimum employee sizes per customer. Any of these events would likely harm our business, results of operations, financial condition and cash flows from operations.

Our failure to maintain and increase acceptance of UltiPro, which accounts for substantially all of our revenues, could cause a significant decline in our revenues.

Currently, the UltiPro solutions, including the UltiPro standard/HR payroll product and Optional Capabilities and related services, account for substantially all of our revenues. Our future success depends on maintaining and increasing acceptance of UltiPro. Any decrease in the demand for UltiPro would have a material adverse effect on our business, operating results and financial condition.

A systems failure or other service interruption at the data center owned and managed by QTS, the data center owned and managed by Savvis, and the data center owned and managed by IO Phoenix One, LLC and used for our hosting services could result in substantial expense to us, loss of customers and claims by our customers for damages caused by any losses they incur.

We offer hosting services, which include hardware, infrastructure, ongoing maintenance and back-up services, to our customers in the United States at a data center owned and operated by QTS, at a location near Atlanta, Georgia and at a data center owned and operated by IO Phoenix One, LLC near Phoenix, Arizona. We also offer hosting services, which include hardware, infrastructure, ongoing maintenance and back-up services, to our customers with employees exclusively in Canada at a data center owned and operated by Savvis near Toronto, Canada.

These hosting services, which are provided as part of our Cloud Offering, must be able to be reliably operated on a 24 hours per day, seven days per week basis without interruption or data loss. The success of the Cloud Offering depends on our ability to protect the infrastructure, equipment and customer data files against damage from:

- Human error;
- Natural disasters;
- Power loss or telecommunication failures;
- Sabotage or other intentional acts of vandalism; and
- Unforeseen interruption or damages experienced in moving hardware to a new location.

We perform a daily backup of our customer data which is stored offsite of the data centers. In addition, QTS has implemented various activities comprising QualityTech's Business Continuity Planning & Disaster Recovery Program which includes risk assessment and business impact analysis, redundancy and crisis and emergency response procedures. Savvis also has a Business Continuity Program which handles business continuity planning, incident management and site emergency action planning. However, the occurrence of one of the above listed events or other unanticipated problems at any of the data centers could:

- Result in interruptions in the services we provide to our customers, during which time our customers may be unable to retrieve their data;
- Require us to spend substantial amounts of money replacing existing equipment and/or purchasing services from an alternative data center;
- Cause existing customers to cancel their contracts;
- Cause our customers to seek damages for losses incurred; or
- Make it more difficult for us to attract new customers.

If our direct sales force is not successful, we may be unable to achieve significant revenue growth in the future.

We sell our products and services primarily through a direct sales force. Our ability to achieve significant revenue growth in the future will depend upon the success of our direct sales force and our ability to adapt our sales efforts to address the evolving markets for our products. If our direct sales force does not perform as expected, our revenues could suffer.

Rapid technological changes and the introduction of new products and enhancements by new or existing competitors could undermine our current market position.

The market for our products is characterized by rapid technological advancements, changes in customer requirements, frequent new product introductions and enhancements and changing industry standards. The life cycles of our products are difficult to estimate. Rapid technological changes and the introduction of new products and enhancements by new or existing competitors could undermine our current market position. Our growth and future success will depend, in part, upon our ability to:

- Enhance our current products and introduce new products in order to keep pace with products offered by our competitors;
- Adapt to technological advancements and changing industry standards; and
- Expand the functionality of our products to address the increasingly sophisticated requirements of our customers.

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

Our current and future competitors include companies with greater financial, technical and marketing resources than we have and if we are unable to compete successfully with other businesses in our industry or with in-house systems developed by potential customers, our profitability will be adversely affected.

Our future success will depend significantly upon our ability to increase our share of our target market, to maintain and increase our recurring revenues from new and existing customers and to sell additional products, product enhancements, maintenance and support services and training and consulting services to existing and new customers. The HCM market is intensely competitive. Our competitors include:

- Large service bureaus, primarily ADP and, to a lesser extent, Ceridian;
- A number of companies, such as PeopleSoft/Oracle, Lawson, and Workday that offer HCM software products for use on mainframes, client/server environments and/or Web servers; and, in the UltiPro Workplace market, payroll service providers such as ADP, Ceridian and Paychex that service companies on the smaller end of the mid-market; and
- The internal HR/payroll departments of potential customers which use custom-written software.

Our competitors may develop products that are superior to our products or achieve greater market acceptance. Many of our competitors or potential competitors have significantly greater financial, technical and marketing resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and to changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than we can. We believe that existing competitors and new market entrants will attempt to develop in-house systems that will compete with our products. We may be unable to compete successfully against current or future competitors. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

Our acquisitions of other companies, products, or technologies may result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.

As part of our overall business strategy, from time to time, we acquire complementary businesses, products and technologies. These transactions could be material to our financial condition and results of operations. We expect to continue to evaluate, and potentially enter into, acquisitions and a wide array of strategic transactions in the future.

We may not realize the anticipated benefits of our acquisitions to the extent that we anticipate, or at all, because acquisitions involve many risks, including:

- difficulties integrating the acquired operations, personnel, technologies, products or infrastructure;
- diversion of management's attention or other resources from other critical business operations and strategic priorities;
- unexpected difficulties encountered when we enter new markets in which we have little or no experience, or where competitors may have stronger market positions;
- inability to maintain relationships with customers and partners of the acquired business;
- the difficulty of incorporating acquired technology and rights into our products and services;
- potential unknown liabilities associated with an acquired business;
- unanticipated expenses related to integrating acquired technology with our existing technology;

- the impact on our results of operations due to depreciation and amortization related to acquired intangible assets, fixed assets and deferred compensation;
- the tax effects of any such acquisitions;
- potential litigation, such as claims by third parties related to intellectual property of the businesses we acquire;
- potential write-offs of our investments in acquired businesses;
- the need to implement controls, procedures and policies appropriate for a public company at companies that prior to the acquisition lacked such controls, procedures and policies; and
- challenges caused by distance, language and cultural differences.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and strategic transactions could cause us to fail to realize the anticipated benefits of such acquisitions or transactions, incur unanticipated liabilities, and harm our business generally.

We may issue additional equity securities to pay for future acquisitions or other strategic transactions, the issuance of which could be dilutive to our existing stockholders and affect the trading price of our securities. If any acquisition or other strategic transactions is not perceived as ultimately improving our financial condition and operating results, our stock price may decline. Further, if we fail to properly evaluate and execute acquisitions or other strategic transactions, our business and financial condition may be seriously harmed.

Our software products may be vulnerable to security breaches and similar disruptive problems; addressing these issues may be expensive and require a significant amount of our resources.

We have included security features in our products that are intended to protect the privacy and integrity of customer data. Despite the existence of these security features, our software products may be vulnerable to breaches and similar disruptive problems. Addressing these evolving security issues may be expensive and require a significant amount of our resources.

The loss of the services of one or more of our key employees could negatively affect our ability to implement our business strategy.

Our success depends to a significant extent upon a limited number of members of senior executive management and other key employees, including Scott Scherr, our Chairman of the Board of Directors, President and Chief Executive Officer. We do not have employment contracts with any of our key personnel. The loss of the services of one or more of our key employees could have a material adverse effect upon us. In addition, uncertainty created by turnover of our key employees could cause further turnover of our employees.

If we are not able to successfully recruit personnel, our revenues could be negatively affected.

Our ability to achieve significant revenue growth in the future will also depend on our success in recruiting, training and retaining sufficient sales, marketing, professional services, product development and other personnel.

The potential growth of our business and expansion of our customer base may place a significant strain on our management and operations, and we may be unable to manage that growth and expansion successfully.

We expect to increase research and development, professional services, sales and marketing and administrative operations as and when appropriate to accommodate our growth plans. Accordingly, our future operating results will depend on the ability of our management and other key employees to continue to implement and improve our systems for operations, financial control and information management and to recruit, train, manage and retain our employee base. We cannot be certain that we will be able to manage any future growth successfully.

Our business relies heavily on the products of Microsoft, which may not always be compatible with our products, and we may be required to spend significant capital if businesses adopt alternative technologies that are incompatible with our products.

Our software products are designed primarily to operate with Microsoft technologies and our strategy requires that our products and technology be compatible with new developments in Microsoft technology. Although we believe that Microsoft technologies are currently widely utilized by businesses of all sizes, we cannot be certain that businesses will continue to adopt such technologies as anticipated, will migrate from older Microsoft technologies to newer Microsoft technologies or will not adopt alternative technologies that are incompatible with our products. As a result, we may be required to develop new products or improve our existing products to be compatible with different technologies that may be used by our customers. We cannot be certain we will be able to adapt our product to any technologies other than Microsoft's.

If our third-party software is not adequately maintained or updated, our sales could be materially adversely affected.

Our products utilize certain software of third-party software developers from whom we have either purchased a license or the underlying source code of such software. Although we believe that there are alternatives for these products, any significant interruption in the availability of such third-party software could have a material adverse impact on our sales unless and until we can replace the functionality provided by these products. Additionally, we are, to a certain extent, dependent upon such third parties' abilities to enhance their current products, to develop new products on a timely and cost-effective basis and to respond to emerging industry standards and other technological changes. We may be unable to replace the functionality provided by the third-party software currently offered in conjunction with our products in the event that such software becomes obsolete or incompatible with future versions of our products or is otherwise not adequately maintained or updated.

If we are unable to release annual or periodic updates on a timely basis to reflect changes in tax laws and regulations or other regulatory provisions applicable to our products, the market acceptance of our products may be adversely affected and our revenues could decline.

Our products are affected by changes in tax laws and regulations and generally must be updated annually or periodically to maintain their accuracy and competitiveness. We cannot be certain that we will be able to release these annual or periodic updates on a timely basis in the future. Failure to do so could have a material adverse effect on market acceptance of our products. In addition, significant changes in tax laws and regulations or other regulatory provisions applicable to our products could require us to make a significant investment in product modifications, which could result in significant unexpected costs to us.

If we are unable to protect our proprietary rights against unauthorized third-party copying or use, our revenues or our methods of doing business could be negatively impacted.

Our success is dependent, in part, on our ability to protect our proprietary rights. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We do not have any patents or patent applications pending, and existing copyright, trademark and trade secret laws afford only limited protection. As a result, we cannot be certain that we will be able to protect our proprietary rights against unauthorized third-party copying or use. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. In addition, others may develop products that perform comparably to our proprietary products. Policing the unauthorized use of our products is difficult.

Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trademarks, copyrights or trade secrets or to determine the validity and scope of the proprietary rights of others; such litigation may be expensive and divert the attention of management.

Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trademarks, copyrights or trade secrets or to determine the validity and scope of the proprietary rights of others. Any litigation could result in substantial costs and diversion of resources and management attention.

As is common in the software industry, from time to time we may become aware of third-party claims of infringement by our operations or products of third-party proprietary rights. While we are not currently aware of any such material claim, our software products may increasingly be subject to such claims as the number of products and competitors in our industry grows, as the functionality of products overlaps and as the issuance of software patents becomes increasingly common. Any such claims, with or without merit, can be time consuming and expensive to defend, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all.

Defects and errors in our software could affect market acceptance of our products.

Software products such as those offered by us may contain undetected errors or failures when first introduced or as new versions are released. Testing of our products is particularly challenging because it is difficult to simulate the wide variety of computing environments in which our customers may use these products. Despite extensive testing, from time to time we have discovered defects or errors in our products. Defects and errors may:

- Cause delays in product introductions and shipments;
- Result in increased costs and diversion of development resources;
- Require design modifications; or
- Decrease market acceptance of, or customer satisfaction with, our products.

Despite testing by us and by current and potential customers, errors may be found after commencement of commercial shipments, which may result in loss of or delay in market acceptance which could have a material adverse impact upon our business, operating results and financial condition.

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

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

Anti-takeover provisions in our certificate of incorporation and by-laws and under our Amended and Restated Rights Agreement and Delaware law and our Change in Control Bonus Plans could substantially increase the cost to acquire us or prevent or delay a change in control and, as a result, negatively impact our stockholders and the price of our Common Stock.

We have taken a number of actions that could have the effect of discouraging a takeover attempt. For example, we have adopted an Amended and Restated Rights Agreement that would cause substantial dilution to a stockholder, and substantially increase the cost paid by a stockholder, who attempts to acquire us on terms not approved by our Board of Directors. This rights plan could prevent us from being acquired. Our Board of Directors is divided into three classes, each of whose members serve for a staggered three-year term. This board structure may prevent stockholders from changing the composition of our Board of Directors quickly.

In addition, our certificate of incorporation grants our Board of Directors the authority to fix the rights, preferences and privileges of and issue up to 2,500,000 shares of preferred stock without stockholder approval. Although we have no present intention to issue shares of preferred stock, such an issuance could have the effect of making it more difficult and less attractive for a third-party to acquire a majority of our outstanding voting stock. Preferred stock may also have other rights, including economic rights senior to our Common Stock, which could have a material adverse effect on our stock price.

We are also subject to the anti-takeover provisions of Section 203 of Delaware General Corporation Law. This section provides that a corporation may not engage in any business combination with any interested stockholder (as defined in that section) during the three-year period following the time that a stockholder became an interested stockholder. This provision could have the effect of delaying or preventing a change in control of our company.

We have adopted two Amended and Restated Change in Control Bonus Plans. One plan provides for the payment of cash amounts to three of our named executive officers, Scott Scherr, Marc D. Scherr and Mitchell K. Dauerman, upon a "change in control" of Ultimate. The other plan provides for the payment of cash amounts in the event of a "change in control" to our other executive officers and certain of our employees, designated by the Compensation Committee of our Board of Directors. A "change in control" would occur if more than 50% of our Common Stock were acquired by a person or entity other than Ultimate or a subsidiary or employee benefit plan of ours. There are other conditions that could result in a change in control event such as a sale or transfer of all or substantially all of our assets or business. The aggregate amount of payment that may be made to all participants under the two Amended and Restated Change in Control Bonus Plans may be as much as 6% of the gross consideration received by us or our stockholders in a change in control transaction. The Change in Control Bonus Plans could substantially increase the cost to acquire us.

The growth of the international operations of our business subjects us to additional risks associated with foreign operations.

International operations are subject to risks associated with operating outside of the United States. During the fourth fiscal quarter of 2006, we began operating in Canada (through the formation of a wholly-owned Canadian subsidiary). During

2013, we continued to grow our operations in Canada, including, but not limited to, the Employtouch Acquisition in October 2013. The financial impact of our international operations to our overall business has been insignificant to date. However, over time, our international operations may grow and increase their significance to our business. Sales to international customers subject us to a number of risks, including foreign currency fluctuations, unexpected changes in regulatory requirements for software, international economic and political instability, compliance with multiple, conflicting, and changing governmental laws and regulations, difficulty in staffing and managing foreign operations, international tax laws, potentially weaker protection for our intellectual property than in the United States, and difficulties in enforcing such rights abroad. If sales to any of our customers outside of the United States are delayed or canceled because of any of the above factors, our revenue may be negatively impacted.

Our international operations also increase our exposure to international laws and regulations. If we are unable to comply with foreign laws and regulations, which are often complex and subject to variation and unexpected changes, we could incur unexpected costs and potential litigation.

If our goodwill or acquired intangible assets become impaired, we may be required to record a significant charge to earnings.

Under U.S. generally accepted accounting principles, we review our acquired intangible assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered in circumstances indicating that the carrying value of our goodwill or acquired intangible assets may not be recoverable include a reduction in our market capitalization (as a result of a decline in our stock price) to a level below our consolidated stockholders' equity as of the applicable balance sheet date, declining future cash flows, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or acquired intangible assets is determined, resulting in a negative impact on our results of operations.

Changes in, or interpretations of, accounting principles could result in unfavorable accounting changes.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles and accompanying accounting pronouncements, implementation guidelines, and interpretations. Changes in these rules or their interpretation could significantly change our reported results and may even retroactively affect previously reported transactions. Our accounting principles that recently have been or may be affected by changes in accounting principles include, but are not limited to: software revenue recognition; accounting for income taxes; and accounting for business combinations and related goodwill.

Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in tax laws or the interpretation of tax laws, or by changes in the valuation of our deferred tax assets and liabilities. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other domestic and foreign tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that these potential examinations will not have an adverse effect on our operating results and financial position.

Privacy concerns could result in regulatory changes that may harm our business.

Personal privacy is a significant issue in the United States and in many other countries where our customers operate. The United States and many other countries have imposed restrictions and requirements on the use of personal information by those collecting such information. Changes to law or regulations affecting privacy, if applicable to our business or product, could impose additional costs and potential liability on us and could limit our use and disclosure of such information. If we were required to change our business activities or revise or eliminate services, our business could be harmed.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2013, Ultimate's corporate headquarters, and its principal administrative, technology, professional services, customer support, finance, marketing and information technology operations were located in Weston, Florida. Ultimate's principal facilities are described below:

Location	Size (sq. ft.)	Lease Termination	General Use
Weston, FL – HQ	39,872	1/31/2017	Technology
Weston, FL – HQ	21,392	1/31/2018	Executive Management and Customer Support
Weston, FL – HQ	5,000	Owned	Product Development and Information Services
Weston, FL – HQ	30,000	5/31/2015	Sales Administration, Marketing, Professional Services and Finance
Weston, FL – HQ	19,950	3/31/2018	Corporate Support and Information Services
Weston, FL – HQ	10,000	2/29/2016	Technology
Weston, FL - HQ	10,456	3/31/2017	Customer Support and Technology
Weston, FL - HQ	26,485	8/31/2014	Product Development and Information Services
Atlanta, GA	61,417	5/31/2019	Professional Services, Customer Support and Payment Services
Santa Ana, CA	30,321	8/31/2016	Payment Services, Professional Services, and Customer Support
Schaumburg, IL	7,861	12/31/2017	Administration and Training
Toronto, Ontario	2,115	12/31/2014	Professional Services and Customer Support
Toronto, Ontario (1)	2,400	1/31/2014	Technology
Toronto, Ontario (2)	1,240	5/31/2014	Technology
Alpharetta, GA (3)	17,285	1/31/2018	UltiPro Managed Services
Scottsdale, AZ (4)	10,036	9/30/2015	UltiPro Managed Services
San Mateo, CA (5)	2,201	9/30/2015	UltiPro Managed Services

(1) As part of the Employtouch Acquisition, Ultimate assumed a lease for office space for its Canada operations through December 31, 2013. Ultimate entered into a one-month lease for office space for its Canada operation for January 2014.
(2) Ultimate entered into a four-month lease for office space for its Canada operations.
(3) As part of the Accel HR Acquisition, Ultimate assumed a five-year lease for office space for its managed services with operations in Georgia.
(4) As part of the Accel HR Acquisition, Ultimate assumed an eleven-month lease for office space for its managed services with operations in Arizona.
(5) As part of the Accel HR Acquisition, Ultimate assumed a three-year lease for office space for its managed services with operations in California.

Currently, we also lease satellite offices for certain field personnel (principally sales personnel) in various locations throughout the United States. We believe that our existing facilities are suitable and adequate for our current operations for the next 12 months. We further believe that suitable space will be available as needed to accommodate any expansion of our operations on commercially reasonable terms.

Item 3. Legal Proceedings

From time to time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently a party to any legal proceedings the adverse outcome of which, individually or in the aggregate, could reasonably be expected to have a material adverse effect on our operating results or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

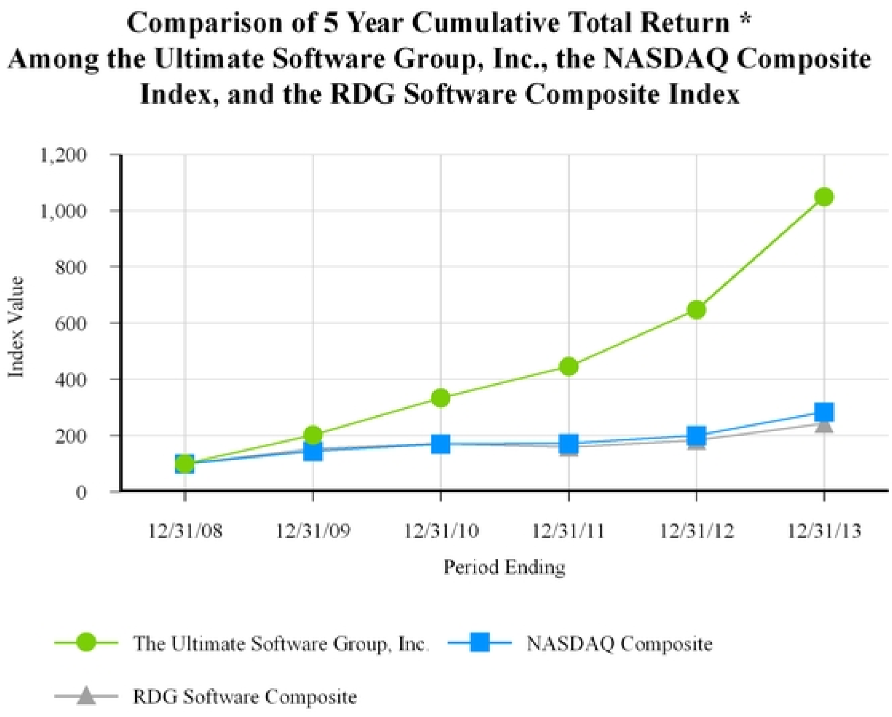
Market Information. The following table sets forth, for the periods indicated, the high and low sales prices of Ultimate's common stock, $0.01 par value (the "Common Stock"), as quoted on the NASDAQ Global Select Market ("NASDAQ") under the symbol "ULTI."

	2013		2012	
	High	**Low**	**High**	**Low**
First Quarter	$105.05	$92.14	$75.00	$63.62
Second Quarter	118.57	91.59	91.41	67.54
Third Quarter	151.08	116.19	106.40	85.97
Fourth Quarter	162.88	137.24	105.00	85.08

As of February 20, 2014, we had approximately 83 holders of record, representing approximately 5,354 stockholder accounts.

We have never declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings to fund the development and growth of our business. The payment of dividends in the future, if any, will be at the discretion of our Board of Directors.

Performance Graph. The following graph compares the cumulative total stockholder returns on Ultimate's Common Stock for the five year period covering December 31, 2008-December 31, 2013, on an annual basis, with the cumulative total return of The Nasdaq Composite Index and the RDG Software Composite Index for the same period.



* $100 invested on 12/31/08 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Issuance of Equity Securities. On October 1, 2013, we entered into agreements (the "Employtouch Agreements") with the shareholders of Employtouch, Inc., a Canadian-based corporation, to acquire 100% of the issued and outstanding shares of Employtouch, Inc., in exchange for a combination of cash and restricted shares of Ultimate's Common Stock. Pursuant to the terms of the Employtouch Agreements, we paid a total of $10.4 million (USD) in cash and a total of 17,788 restricted shares of Ultimate's Common Stock valued at $2.6 million, which are issuable in three (3) equal installments on April 1, 2014, April 1, 2015 and April 1, 2016 (the "Employtouch Stock Consideration").

On November 15, 2013 (the "Accel HR Closing Date"), pursuant to an asset purchase agreement with Accel HR, LLC, a Delaware limited liability company located in Georgia, and certain members of Accel HR (the "Accel HR Agreement") we acquired certain assets and liabilities of Accel HR in exchange for a combination of cash and restricted shares of Ultimate's Common Stock. Pursuant to the terms of the Accel HR Agreement, we paid a total of $14.6 million in cash and a total of 22,017 restricted shares of Ultimate's Common Stock, valued at $3.5 million, which are issuable in three (3) equal installments on the first, second and third anniversaries of the Accel HR Closing Date (the "Accel HR Stock Consideration").

We relied on Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and Regulation D thereunder for the exemption from registration of the sale of such shares of Common Stock issued to the EmployTouch, Inc. shareholders and the members of Accel HR, LLC (the "Stockholders and Members"). The Stockholders and Members represented their intention to acquire the shares of the Common Stock for investment purposes only, and not with a view towards the sale or distribution thereof; their knowledge, skill and experience in business, financial and investment matters, their ability to evaluate the merits and risk and bear the economic risks of such investment in our Common Stock; that they are "accredited investors" as defined in Regulation D promulgated under the Securities Act; and that they were given the opportunity to ask questions of, and receive answers from us concerning our business.

The restricted shares of Ultimate's Common Stock issuable pursuant to both the Employtouch Stock Consideration and the Accel HR Stock Consideration are subject only to the passage of time and, as discussed above, such shares will be unregistered when issued which places certain restrictions on when the shares can be freely traded on the open market. No other restrictions apply to the Common Stock issuable for both acquisitions. The fair value of the restricted shares of Ultimate's Common Stock issuable pursuant to the Employtouch Stock Consideration and the Accel HR Stock Consideration was recorded as of the respective acquisition dates since there are no contingencies related to the future stock issuances.

Purchases of Equity Securities by the Issuer. On October 30, 2000, Ultimate announced that our Board of Directors authorized the repurchase of up to 1,000,000 shares of our outstanding Common Stock (the "Stock Repurchase Plan").

On February 6, 2007, Ultimate's Board of Directors extended the Stock Repurchase Plan by authorizing the repurchase of up to 1,000,000 additional shares of our issued and outstanding Common Stock.

On February 5, 2008, Ultimate's Board of Directors extended the Stock Repurchase Plan further by authorizing the repurchase of up to 1,000,000 additional shares of our Common Stock.

On October 26, 2009, Ultimate's Board of Directors extended the Stock Repurchase Plan further by authorizing the repurchase of up to 1,000,000 additional shares of our Common Stock.

On October 24, 2011, Ultimate's Board of Directors extended the Stock Repurchase Plan further by authorizing the repurchase of up to 1,000,000 additional shares of our Common Stock.

As of December 31, 2013, Ultimate had purchased 4,053,835 shares of our Common Stock under the Stock Repurchase Plan, with 946,165 shares available for repurchase in the future. There were no repurchases of shares of our issued and outstanding Common Stock under the Stock Repurchase Plan during the three months ended December 31, 2013.

The number of shares of Common Stock repurchased by us during the three months ended December 31, 2013 is as indicated below:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Cumulative Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 – 31, 2013	—	—	4,053,835	946,165
November 1 – 30, 2013	62,964	$ 155.32	4,053,835	946,165
December 1 – 31, 2013	—	—	4,053,835	946,165
Total	**62,964**	**$ 155.32**	**4,053,835**	**946,165**

(1) Represents shares of Common Stock that were acquired by us at the fair market value of the Common Stock as of the period stated, in connection with the satisfaction of our employees' tax withholding liability resulting from the vesting of restricted stock holdings.

Item 6. Selected Financial Data

The following selected consolidated financial data is qualified by reference to and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Ultimate's Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K. The statements of operations data presented below for each of the years in the three-year period ended December 31, 2013 and the balance sheet data as of December 31, 2013 and 2012 have been derived from our Consolidated Financial Statements included elsewhere in this Form 10-K.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
Statement of Operations Data: (in thousands, except per share data)					
Revenues:					
Recurring	$ 334,434	$ 266,430	$ 213,785	$ 170,905	$ 133,159
Services	75,110	64,563	53,195	55,368	58,996
License	853	1,275	2,218	1,538	4,125
Total revenues	410,397	332,268	269,198	227,811	196,280
Cost of revenues:					
Recurring	91,903	78,121	63,505	49,144	38,765
Services	76,577	66,063	52,341	49,843	48,304
License	198	280	488	255	750
Total cost of revenues	168,678	144,464	116,334	99,242	87,819
Gross profit	241,719	187,804	152,864	128,569	108,461
Operating expenses:					
Sales and marketing	93,879	72,565	63,145	58,374	52,810
Research and development	67,757	60,693	51,356	42,222	38,005
General and administrative	36,869	25,433	21,931	19,727	17,803
Total operating expenses	198,505	158,691	136,432	120,323	108,618
Operating income (loss)	43,214	29,113	16,432	8,246	(157)
Other (expense) income:					
Interest expense and other	(229)	(476)	(401)	(263)	(90)
Other income, net	104	102	91	188	162
Total other (expense) income, net	(125)	(374)	(310)	(75)	72
Income (loss) from continuing operations before income taxes	43,089	28,739	16,122	8,171	(85)
Provision for income taxes	(17,559)	(14,107)	(11,840)	(5,161)	(721)
Income (loss) from continuing operations	25,530	14,632	4,282	3,010	(806)
Loss from discontinued operations, net of income taxes	—	—	—	(853)	(336)
Net income (loss)	$ 25,530	$ 14,632	$ 4,282	$ 2,157	$ (1,142)
Basic earnings (loss) per share: (1)					
Earnings (loss) from continuing operations	$ 0.92	$ 0.55	$ 0.17	$ 0.12	$ (0.04)
Loss from discontinued operations	—	—	—	(0.03)	(0.01)
Total	$ 0.92	$ 0.55	$ 0.17	$ 0.09	$ (0.05)
Diluted earnings (loss) per share: (1)					
Earnings (loss) from continuing operations	$ 0.88	$ 0.52	$ 0.15	$ 0.11	$ (0.04)
Loss from discontinued operations	—	—	—	(0.03)	(0.01)
Total	$ 0.88	$ 0.52	$ 0.15	$ 0.08	$ (0.05)

	Years Ended December 31,				
	2013	2012	2011	2010	2009
Weighted average shares outstanding: (1)					
Basic	27,773	26,778	25,814	24,960	24,463
Diluted	29,013	28,375	27,806	27,101	24,463
Balance Sheet Data:	As of December 31,				
	2013	2.012	2011	2010	2009
Cash and cash equivalents	$ 79,794	$ 58,817	$ 46,149	$ 40,889	$ 23,684
Investments in marketable securities	10,453	10,534	9,130	9,317	9,523
Total assets	598,194	525,284	318,820	249,557	171,130
Deferred revenue	103,184	91,976	86,563	78,095	68,559
Long-term borrowings, including capital lease obligations	2,833	5,070	2,175	2,406	1,710
Stockholders' equity	$ 188,217	$ 114,670	$ 85,624	$ 72,985	$ 57,770

(1) See Note 11 of the Notes to the Consolidated Financial Statements for information regarding the computation of net earnings (loss) per share.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Condition and Results of Operations provides information we believe is relevant to an assessment and understanding of our results of operations and financial condition. This discussion should be read in conjunction with our Consolidated Financial Statements and Notes that are included in this Form 10-K. Also, the discussion of Critical Accounting Estimates in this section is an integral part of the analysis of our results of operations and financial condition.

Overview

Ultimate Software is a leading provider of cloud-based human capital management ("HCM"). Ultimate's UltiPro software ("UltiPro") is a comprehensive, easy-to-use solution delivered primarily over the Internet to organizations based in the United States and Canada, including those with global employees. We attained our leadership position, we believe, through our focus on unified HCM, cloud technology, and strong customer relationships. At the close of 2013, we had more than 15 million people records in our HCM cloud.

UltiPro is designed to deliver the functionality businesses need to manage the complete employment life cycle from recruitment to retirement. The solution includes unified feature sets for talent acquisition and onboarding, human resources ("HR") management and compliance, benefits management and online enrollment, payroll, performance management, salary planning and budgeting for compensation management, succession management, reporting and analytical decision-making tools, and time and attendance. UltiPro has role-based features for HR professionals, executives, managers, administrators, and employees whether they are in or out of the office, including access to business-critical information on mobile devices such as the iPhone, iPad, and other smartphones and tablets.

Our cloud offering of UltiPro (the "Cloud Offering") provides Web-based access to comprehensive HCM functionality for organizations that want to simplify delivery and support of their business applications. We have found that our Cloud Offering is attractive to companies that want to focus on their core competencies to increase sales and profits. Through the Cloud Offering, we supply and manage the hardware, infrastructure, ongoing maintenance and backup services for our customers. Customer systems are currently managed at three data centers-one located in the Atlanta, Georgia area, one in the Phoenix, Arizona area and another one in Toronto, Canada. All data centers are owned and operated by independent third parties.

We currently market our UltiPro solutions primarily to enterprise companies, which we define as companies with more than 1,500 employees, and mid-market companies, which we define as having approximately 500-1,500 employees. Our mid-market customers have access to nearly all the features that our larger enterprise companies have through UltiPro, plus a bundled services package. Since many companies in the mid-market do not have information technology ("IT") staff on their premises to help with system deployment or ongoing management issues, we have created a bundled services package to give these customers a high degree of convenience by handling system configuration, business rules, and other situations for them “behind the scenes.” UltiPro is marketed primarily through our enterprise and mid-market direct sales teams.

In addition to UltiPro's HCM functionality, our customers have the option to purchase a number of additional capabilities on a per-employee-per-month (“PEPM”) basis, which are available to enhance and complement the functionality of UltiPro and which are based on the particular business needs of our customers. These optional UltiPro capabilities currently include (i) the talent acquisition suite (recruitment and onboarding); (ii) the talent management suite (performance management, talent predictors, and succession management); (iii) compensation management; (iv) benefits enrollment; (v) time management; (vi) payment services (formerly referred to as “tax filing”); (vii) wage attachments; and (vii) other optional features (collectively, “Optional Capabilities”), which are described below.

All Optional Capabilities are priced solely on a subscription basis. Some of the Optional Capabilities are available to both enterprise and mid-market customers while others are available exclusively to either enterprise or mid-market customers, and availability is based on the needs of the respective customers, the number of their employees and the complexity of their HCM environment.

To further simplify the work lives of our customers’ human resources and payroll people, we introduced UltiPro Managed Services in November 2013 as a result of the Accel HR Acquisition (discussed below). UltiPro Managed Services is designed for those customers who want to outsource some components of their HR, payroll, benefits, and HCM technology management functions without sacrificing the control of, or access to, their employee data that they enjoy with our cloud solution. Unlike other outsourced payroll or HRIS services that typically take a one-size-fits-all approach, UltiPro Managed Services allows customers to select from a number of payroll management, HRIS, and/or benefits management services and combine them into a tailored solution that best suits their unique needs. Accel HR has provided these types of services to large and mid-market corporate customers in North America since 2004 and, since 2007, Accel HR partnered exclusively with Ultimate to provide these services to their UltiPro customers.

In October 2013, we introduced UltiPro TouchBase in connection with the Employtouch Acquisition (discussed below), which provides our customers an interactive mobile time clock device that collects time punches, as well as highlights the information most critical to employees and managers via an engaging activity stream. With UltiPro TouchBase, our customers can capture employee time on a touchscreen tablet device, collecting employee-validated data for cost accounting and payroll; can leverage photos for accurate capture of employee time-entry, avoiding 'buddy punches'; and can validate transactions using PIN entry, HID, RFID, magnetic swipe or barcode.

Our Partners for Life program, introduced in the second half of 2010, is designed to make it easier for customers to leverage the full scope of UltiPro's features and reach more users in our customers' organizations. As part of the Partners for Life program, we changed the pricing method for our implementation services from a time and materials offering to a fixed fee offering, with the expected objective of lowering the total cost of services charged to each customer. The incremental benefit of the Partners for Life program is that we enhance the quality of our customer relationships and encourage increased customer loyalty, and enhanced readiness for the customer to be a reference for us.

The key drivers of our business are (i) growth in recurring revenues; (ii) operating income, excluding primarily non-cash stock-based compensation and amortization of acquired intangibles ("Non-GAAP Operating Income"); and (iii) retention of our customers once our solutions are sold (“Customer Retention”). For the year ended December 31, 2013, our (i) recurring revenues grew by 25.5%, compared with the same period in 2012 and (ii) Non-GAAP Operating Income was $76.3 million, or 18.6% of total revenues, as compared with $49.5million, or 14.9% of total revenues, for the same period in 2012. For the year ended December 31, 2012, our (i) recurring revenues grew by 24.6%, compared with the same period in 2011, and (ii) Non-GAAP Operating Income was $49.5 million, or 14.9% of total revenues, as compared with $31.5 million, or 11.7% of total revenues, for the same period in 2011. As of December 31, 2013 and 2012, our Customer Retention exceeded 96%, on a trailing twelve-month basis. See “Non-GAAP Financial Measures” below.

Our ability to achieve significant revenue growth in the future will depend upon the success of our direct sales force and our ability to adapt our sales efforts to address the evolving markets for our products and services. We provide our sales personnel with comprehensive and continuing training with respect to technology and market place developments. Aside from sales commissions, we also provide various incentives to encourage our sales representatives, including stock-based compensation awards based upon performance.

The HCM market is intensely competitive. We address competitive pressures through improvements and enhancements to our products and services, the development of additional features of UltiPro and a comprehensive marketing team and process that distinguishes Ultimate and its products from the competition. Our focus on customer service, which enables us to maintain a high Customer Retention rate, also helps us address competitive pressures.

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, 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. We address continuing economic pressures by, among other things, efforts to control growth of our operating expenses through the monitoring of controllable costs and vendor negotiations.

Ultimate has two primary revenue sources: recurring revenues and services revenues. Subscription revenues from our Cloud Offering and customer support and maintenance revenues are the primary components of recurring revenues. The majority of services revenues are derived from implementation consulting services. Subsequent to the discontinuation of selling perpetual licenses of UltiPro to new customers, which occurred in 2009, we sell licenses to existing license customers but only in relation to the customer's employee growth or for Optional Capabilities if the customer already has a perpetual license for the on-site UltiPro solutions. As perpetual license agreements were sold in the past, annual maintenance contracts (priced as a percentage of the related license fee) accompanied those agreements. Maintenance contracts typically have a one-year term with annual renewal periods thereafter. Currently, our customer support and maintenance revenues are related to renewal maintenance only.

As cloud units are sold, the recurring revenue backlog associated with the Cloud Offering grows, enhancing the predictability of future revenue streams. Cloud revenues include ongoing monthly subscription fees, priced on a PEPM basis. Revenue recognition for the Cloud Offering is triggered when the customer processes its first payroll using UltiPro (or goes “Live”).

Acquisitions

On October 1, 2013, we completed the acquisition of Employtouch, Inc. (the "Employtouch Acquisition"), a Canadian-based corporation, which is engaged in the business of developing workforce management hardware and software products. See Note 4 of the Notes to Consolidated Financial Statements.

On November 15, 2013, we acquired certain assets and liabilities of Accel HR, LLC, (the “Accel HR Acquisition”) a Delaware limited liability company located in Georgia, which provides comprehensive outsourcing solutions, services and support for middle to large market organizations ranging from 500 to over 25,000 employees. See Note 4 of the Notes to Consolidated Financial Statements.

Critical Accounting Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

We recognize revenues in accordance with Accounting Standards Update No. 2009-13, “ Multiple-Deliverable Revenue Arrangements” (“ASU 2009-13”). We use the relative selling price method to allocate the total consideration to units of accounting in a multiple element arrangement. We allocate revenue in an arrangement using the estimated selling price (“ESP”) of deliverables if it does not have vendor-specific objective evidence (“VSOE”) or third-party evidence (“TPE”) of selling price.

VSOE is the price charged when the same or similar product or service is sold separately. We define VSOE as a median price of recent stand-alone transactions that are priced within a narrow range.

TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. However, due to the difficulty in obtaining sufficient information on competitor pricing and differences in our product offerings when compared with those of our peers, we generally are unable to reliably determine TPE.

ESP is our best estimate of the selling price of an element in a transaction. If we are unable to establish selling price using either VSOE or TPE, we will use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact business if the product or service were sold by us on a stand-alone basis. Our determination of ESP involves the use of a customary discount from the list (or book) price for each element, with the discounted price applied within a narrow range. The customary discount is derived from historical data that has been analyzed to determine trends and patterns. We analyze the customary discount used for determining ESP on no less than an annual basis.

We evaluate each deliverable in our arrangements to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to our customers. Our products and services continue to qualify as separate units of accounting under ASU 2009-13.

There are two major elements in our multiple element arrangements for the delivery of our Cloud Offering, which are recurring revenues (i.e., cloud subscription revenues and customer support and maintenance revenues) and services revenues (mostly implementation consulting services).

For multiple element arrangements, the consideration allocated to cloud subscription revenues is recognized as recurring revenues over the initial contract period, as those services are delivered, commencing with the Live date of the related product. The consideration allocated to fixed fee implementation consulting services in multiple element arrangements is recognized as services revenues on a percentage of completion basis, using reasonably dependable estimates with respect to milestones achieved (in relation to progression through implementation phases), by product.

Single element arrangements typically consist of renewals for cloud subscriptions and renewal maintenance agreements. In addition, subsequent to the introduction of the Partners for Life program, implementation consulting services sold on a time and materials basis typically represent single element arrangements. Under these single element arrangements, cloud subscription and maintenance revenues are recognized over the related renewal period, as the services are delivered, and implementation consulting services are recognized as the services are performed.

We recognize revenues when all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- the fees are fixed and determinable; and
- collection is considered probable.

If collection is not considered probable, we recognize revenues when the fees are collected. If the fees are not fixed and determinable, we recognize revenues when the fees become due from the customer. If non-standard acceptance periods or non-standard performance criteria are required, we recognize revenue when the acceptance period expires or upon the satisfaction of the acceptance/performance criteria, as applicable.

The majority of services revenues are recognized over the implementation period, which is from the contract execution date until the Live date. Cloud revenues are recognized over the initial contract term, beginning in the month the customer goes Live.

Recurring Revenues

Recurring revenues primarily consist of subscription revenues recognized from our Cloud Offering, as well as customer support and maintenance revenues.

i) Cloud subscription revenues are principally derived from PEPM fees earned from the Cloud Offering and from sales of hosting services on a stand-alone basis to customers who already own a perpetual license ("Base Hosting"). Ongoing PEPM fees from the Cloud Offering and, to a lesser extent, Base Hosting are recognized as subscription revenues as the services are delivered, commencing when the customer goes Live.

ii) Customer support and maintenance revenues are derived from maintaining, supporting, and providing periodic updates of our software for our hosting services. Since we stopped selling perpetual licenses to our new customers effective April 1, 2009, customer support and maintenance revenues stem from annual renewals.

Under our Cloud Offering, our customers do not have the right to take possession of our software and these arrangements are considered service contracts. The selling price of multiple deliverables in cloud arrangements is derived for each element based on the guidance provided by ASU 2009-13. The multiple elements that typically exist in cloud arrangements include (1) recurring revenues from the combination of hosting services, the right to use UltiPro, and maintenance of UltiPro (i.e., product enhancements, updates and customer support) and (2) professional services (i.e., primarily implementation consulting services).

The pricing for the three elements that pertain to recurring revenues (i.e., hosting services, the right to use UltiPro and maintenance of UltiPro) is bundled. Since these three bundled elements are components of recurring revenues in the consolidated statements of income, allocation of selling price to each of the three elements is not necessary and they are not reported separately. Selling price, which is established through VSOE, for the bundled elements, as a whole, is determined on the basis of renewal pricing, without taking into consideration potential price increases or potential changes in the number of employees of the customer in the future due to the uncertainties surrounding these potential occurrences. These bundled elements are provided on an ongoing basis, represent undelivered elements and are recognized on a monthly basis as the related services are performed, commencing once the customer goes Live.

Services Revenues

Services revenues primarily include revenues from fees charged for implementation consulting services in connection with the implementation of our product solutions and, to a much lesser extent, training of customers in the use of our products and fees for other services, including the provision of payroll-related forms, sales of time clocks and the printing of W-2 forms for certain customers, as well as certain client reimbursable out-of-pocket expenses.

Prior to the introduction of the Partners for Life program in the second half of 2010, our multiple element sales contracts included recurring cloud revenues, priced on a PEPM basis, and implementation consulting services, priced on a time and materials basis. As the Partners for Life program has evolved, the vast majority of multiple element contracts contain recurring cloud revenues and implementation consulting services priced on a fixed fee basis. Time and materials implementation consulting services are still sold but, generally, as stand-alone sales not directly related to the basic implementation of the cloud product. The total arrangement consideration is allocated to services elements in the arrangement based on relative selling prices, using the prices established when the services are sold on a stand-alone basis. Selling price is established through ESP for fixed fee implementation consulting services related to our Partners for Life program.

Revenues from implementation consulting services sold on a fixed-fee basis are recognized using the percentage of completion accounting method, which involves the use of estimates. Percentage of completion is measured at each reporting date based on progress made to date, using reasonably dependable estimates with respect to milestones achieved or billable hours, as applicable.

Revenues from implementation consulting services, billed on a time and materials basis (at an hourly rate), are recognized as these services are performed. Other services are recognized as the product is shipped or as the services are rendered, depending on the specific terms of the related arrangement.

Income Taxes

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

Ultimate assesses the likelihood that it will be able to recover its deferred tax assets. Management considers all available evidence, both positive and negative, including historical levels of pre-tax book income, expiration of net operating loss carryforwards, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies as well as current tax laws and interpretation of current tax laws in assessing the need for a valuation allowance. If recovery is not likely, we record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. The available positive evidence at December 31, 2013 included, among other factors, three years of cumulative historical pre-tax book income and a projection of future pre-tax book income and taxable income. As a result of our analysis of all available evidence, both positive and negative, at December 31, 2013, it was considered more likely than not that a valuation allowance for deferred tax assets was not required. However, should there be a change in our ability to recover the deferred tax assets, the tax provision would increase in the period in which it is determined that recovery is not probable.

Business Combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed at the acquisition date based upon their estimated fair values. Goodwill as of the acquisition date represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets acquired and liabilities assumed. The purchase price allocation and valuation of the acquisition require management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets.

The estimates used in valuing certain of the intangible assets include, but are not limited to: future expected cash flows of the assets, discount rates to determine the present value of the future cash flows, financial projections of the acquired business, attrition rates of customers and expected technology life cycles. We also estimate the useful lives of the intangible assets based on the expected period over which we anticipate generating economic benefit from the asset.

Our estimates of fair value are based on assumptions believed to be reasonable at that time. If management made different estimates or judgments, material differences in the fair values of the net assets acquired may result.

The fair value of assets acquired and liabilities assumed was based upon a preliminary purchase price allocation and our estimates and assumptions are subject to change within the measurement period.

Goodwill and Intangible Assets

The purchase price of an acquired company is allocated between intangible assets and the net tangible assets of the acquired business with the residual of the purchase price recorded as goodwill. The determination of the value of the intangible assets acquired involves certain judgments and estimates. These judgments and estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future and the appropriate weighted average cost of capital.

At December 31, 2013, our goodwill totaled $26.9 million and our identifiable net intangible assets totaled $8.3 million. We assess the impairment of goodwill of our reporting units annually, or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value to the extent necessary. We consider both market and discounted cash flow approaches in determining the fair value of the reporting unit. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow approach uses expected future operating results. Failure to achieve these expected results may cause a future impairment of goodwill at the reporting unit. We conducted our annual impairment tests of goodwill as of December 31, 2013, 2012 and 2011. As a result of this test, we determined that no adjustment to the carrying value of goodwill for any reporting unit was required.

We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset or group of assets. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. We also evaluate the estimated remaining useful lives of intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. Assumptions and estimates about future values and remaining useful lives of our intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy and our internal forecasts.

Allowance for Doubtful Accounts

We perform credit evaluations of our customers to assess their ability to make payments to us for our products and services. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on accounts receivable. A considerable amount of judgment is required in determining the amount of our allowance for doubtful accounts, including assessing the probability of collection and current credit-worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in further impairment of their ability to make payments, an additional provision for doubtful accounts may be required.

Results of Operations

The following table sets forth the consolidated statements of operations data of Ultimate, as a percentage of total revenues, for the periods indicated.

	For the Years Ended December 31,		
	2013	2012	2011
Revenues:			
Recurring	81.5 %	80.2 %	79.4 %
Services	18.3	19.4	19.8
License	0.2	0.4	0.8
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Recurring	22.4	23.5	23.6
Services	18.7	19.9	19.4
License	—	0.1	0.2
Total cost of revenues	41.1	43.5	43.2
Gross profit	58.9	56.5	56.8
Operating expenses:			
Sales and marketing	22.9	21.8	23.5
Research and development	16.5	18.3	19.1
General and administrative	9.0	7.6	8.1
Total operating expenses	48.4	47.7	50.7
Operating income	10.5	8.8	6.1
Other income (expense):			
Interest expense and other	—	(0.1)	(0.1)
Other income, net	—	—	—
Total other income (expense), net	—	(0.1)	(0.1)
Income from continuing operations before income taxes	10.5	8.7	6.0
Provision for income taxes	(4.3)	(4.3)	(4.4)
Income from continuing operations	6.2	4.4	1.6
Loss from discontinued operations, net of taxes	—	—	—
Net income	6.2 %	4.4 %	1.6 %

Comparison of Fiscal Years Ended December 31, 2013 and 2012

Revenues

Our revenues are derived from recurring revenues, services revenues and, to a much lesser extent, license revenues. See “Revenue Recognition” above for further discussion of Ultimate’s revenue sources and its method of accounting for each of them.

Total revenues, primarily consisting of recurring and services revenues, increased 23.5% to $ 410.4 million for 2013 from $332.3 million for 2012.

Recurring revenues increased 25.5% to $334.4 million for 2013 from $266.4 million for 2012. The increase in recurring revenues for 2013 was primarily due to an increase in cloud revenues, partially offset by a decrease in maintenance revenues, as described below:

i) Cloud revenues increased 30.2% for 2013, primarily due to the continued growth of the Cloud Offering, which comprised the majority of unit sales. The increase in cloud revenues is based on the revenue impact of incremental units that have gone Live since December 31, 2012, including the UltiPro standard/HR payroll product and, to a lesser extent, Optional Capabilities of UltiPro. Recognition of recurring revenues for cloud sales commences upon the respective Live date.

ii) Maintenance revenues from previously sold licenses decreased 11.2%. The decrease resulted from the transition of certain customers who were formerly using UltiPro in connection with the purchase of a perpetual license to using UltiPro under our Cloud Offering, combined with the impact of attrition in the ordinary course of business, partially offset by price increases. Maintenance revenues are recognized on a monthly recurring basis as the maintenance contracts renew annually.

iii) Our annual revenue customer retention rate for total recurring revenues exceeded 96% in 2013.

iv) The impact on recurring revenues of units sold under the Cloud Offering has been a gradual increase from one reporting period to the next, based on the incremental effect of revenue recognition of the subscription fees over the terms of the related contracts as sales in backlog go Live.

Services revenues increased 16.3% to $75.1 million for 2013 from $64.6 million for 2012 primarily as a result of an increase in implementation revenues. The increase in implementation revenues was primarily attributable to a combination of more billable consultants, and the increased utilization of seasoned consultants. We introduced the Partners for Life program in the second half of 2010 and it evolved over the course of 2011 with the full effect of the program becoming more consistent during 2012 and 2013. The Partners for Life program changed the method by which we charge customers for our services that are delivered primarily over the period leading up to the point the customer goes Live (the “Time to Live Period”). As new sales are generated, we charge a fixed fee for services based on the number of the customer’s employees, as opposed to our former billing method for new sales, which included charging customers on a time and materials basis as these services were provided. The Partners for Life program was designed to lower the total cost of implementation services charged to each customer primarily over the Time to Live Period for UltiPro and/or Optional Capabilities, through a fixed fee. While we experienced the shift from primarily time and materials services to a hybrid of both fixed fee services and time and material services in 2011 and part of 2012, we started experiencing an increase in time and materials services in 2013 when compared to 2012. This was primarily driven by additional implementation services sold separately to certain customers in addition to the fixed fee services offered to them.

Cost of Revenues

Cost of revenues primarily consists of the costs of recurring and services revenues. Cost of recurring revenues primarily consists of costs to provide maintenance and technical support to Ultimate's customers, the cost of providing periodic updates and the cost of recurring subscription revenues, including hosting data center costs and, to a lesser extent, amortization of capitalized software. Cost of services revenues primarily consists of costs to provide implementation consulting services and training to Ultimate's customers and, to a lesser extent, costs related to sales of payroll-related forms, time clocks and Form W-2 services, as well as costs associated with certain client reimbursable out-of-pocket expenses.

Cost of recurring revenues increased 17.6% to $91.9 million for 2013 from $78.1 million for 2012. The $13.8 million increase in the cost of recurring revenues for the year was primarily due to increases in both cloud costs and customer support and maintenance costs, as described below:

i) The increase in cloud costs was principally as a result of the growth in cloud operations and increased sales, including increased labor costs (which includes increased stock-based compensation expense). Non labor-related hosting data center costs increased slightly when compared to the same period in the prior year.

ii) The increase in customer support and maintenance costs was primarily due to higher labor costs commensurate with the growth in the number of customers serviced.

Cost of services revenues increased 15.9% to $76.6 million for 2013 from $66.1 million for 2012. The $10.5 million increase in cost of services revenues was primarily due to an increase in the cost of implementation, which was primarily due to higher labor and related costs, particularly in association with an increased number of implementation consultants and increased stock-based compensation expense. Costs of third-party implementation consulting partners also increased from more usage.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and benefits, sales commissions, travel and promotional expenses, and facility and communication costs for direct sales offices, as well as advertising and marketing costs. Sales and marketing expenses increased 29.4% to $93.9 million for 2013 from $72.6 million for 2012. The $21.3 million increase in sales and marketing during 2013 was primarily due to increased labor and related costs (including additional personnel costs, increased stock-based compensation expense and, to a lesser extent, higher sales commissions related to increased cloud sales) as well as increased advertising and marketing costs. Commissions on cloud sales are amortized over the initial contract term (typically 24 months) commencing on the Live date, which corresponds with the related cloud revenue recognition.

Research and Development

Research and development expenses consist primarily of software development personnel costs. Research and development expenses increased 11.6% to $67.8 million in 2013 from $60.7 million in 2012. The $7.1 million increase in research and development expenses during 2013 was principally due to higher labor and related costs (which include increased stock-based compensation expense) attributable to the ongoing development of UltiPro and complementary products, including the impact of increased personnel costs (predominantly from additional headcount), partially offset by capitalized labor costs. For the years ended December 31, 2013 and 2012, we capitalized $19.0 million and $5.2 million, respectively, of computer software development costs related to an internal-use development project to be sold in the future as a cloud product only. There were no such costs capitalized in the year ended December 31, 2011. The increase in capitalized research and development costs was attributable to the capitalization of the project for a partial year in 2012 compared with a full year in 2013, combined with the additional use of third-party consultants in the capitalized project during 2013.

General and Administrative

General and administrative expenses consist primarily of salaries and benefits of executive, administrative and financial personnel, as well as external professional fees and the provision for doubtful accounts. General and administrative expenses increased by 45.0% to $36.9 million for 2013 from $25.4 million for 2012. The increase in general and administrative expenses for 2013 was primarily due to increased labor and related costs (which includes the impact of additional personnel costs as well as increased stock-based compensation expense) and, to a lesser extent, an increase in the provision for doubtful accounts and an increase in professional fees associated with the 2013 acquisitions.

Interest Expense and Other

Interest expense and other decreased $247 thousand, or 51.9%, to $ 229 thousand for 2013 from $476 thousand for 2012. The decrease was primarily related to an increase in realized foreign currency exchange losses.

Other Income, net

Other income, net, increased by 2.0% to $104 thousand for 2013 from $102 thousand for 2012. The increase was not significant.

Provision for Income Taxes

In 2013, based on pre-tax income from continuing operations, we had income tax expense of $ 17.6 million as compared to $14.1 million in 2012. The increase in income tax expense of $3.5 million was primarily due to an increase in pre-tax book income, partially offset by the recognition of a loss previously reserved upon conclusion of our 2010 IRS examination, and a decrease in non-deductible expenses. Net operating loss carryforwards available at December 31, 2013, which are available to offset future U.S. taxable income, approximated $154.9 million. The carryforwards expire from 2018 through 2033 and from 2014 through 2033, for Federal and state income tax reporting purposes, respectively. As of December 31, 2013, we had approximately $0.2 million of net operating loss carryforwards for foreign income tax reporting purposes available to offset future taxable income. The timing and levels of future profitability may result in the expiration of net operating loss carryforwards before utilization. Additionally, utilization of such net operating losses may be limited as a result of cumulative ownership changes in our equity instruments.

We recognized $18.6 million of deferred tax assets, net of deferred tax liabilities, as of December 31, 2013. If estimates of taxable income are decreased, a valuation allowance may need to be provided for some or all deferred tax assets, which will cause an increase in income tax expense.

Comparison of Fiscal Years Ended December 31, 2012 and 2011

Revenues

Our revenues are derived from recurring revenues, services revenues and, to a much lesser extent, license revenues. See “Revenue Recognition” above for further discussion of Ultimate’s revenue sources and its method of accounting for each of them.

Total revenues, primarily consisting of recurring and services revenues, increased 23.4% to $332.3 million for 2012 from $269.2 million for 2011.

Recurring revenues increased 24.6% to $266.4 million for 2012 from $213.8 million for 2011. The increase in recurring revenues for 2012 was primarily due to an increase in cloud revenues, partially offset by a decrease in maintenance revenues, as described below:

i) Cloud revenues increased 29.3% for 2012, primarily due to the continued growth of the Cloud Offering, which comprised the majority of unit sales. The increase in cloud revenues is based on the revenue impact of incremental units that have gone Live since December 31, 2011, including the UltiPro standard/HR payroll product and, to a lesser extent, Optional Capabilities of UltiPro. Recognition of recurring revenues for cloud sales commences upon the respective Live date.

ii) Maintenance revenues from previously sold licenses decreased 4.4%. The decrease resulted from the transition of certain customers who were formerly using UltiPro in connection with the purchase of a perpetual license to using UltiPro under our Cloud Offering, combined with the impact of attrition in the ordinary course of business, partially offset by price increases. Maintenance revenues are recognized on a monthly recurring basis as the maintenance contracts renew annually.

iii) Our annual revenue customer retention rate for total recurring revenues exceeded 96% in 2012.

iv) The impact on recurring revenues of units sold under the Cloud Offering has been a gradual increase from one reporting period to the next, based on the incremental effect of revenue recognition of the subscription fees over the terms of the related contracts as sales in backlog go Live.

Services revenues increased 21.4% to $64.6 million for 2012 from $53.2 million for 2011 primarily as a result of an increase in implementation revenues. The increase in implementation revenues was primarily attributable to a combination of more billable consultants, the increased utilization of seasoned consultants and an increase in the use of third-party consulting partners. In addition, there was a continued shift toward more implementation consulting revenues from fixed fee arrangements and less implementation consulting revenues from time and materials arrangements, principally as a result of the Partners for Life program. The Partners for Life program changed the method by which we charge customers for our services that are delivered primarily over the period leading up to the point the customer goes Live (the “Time to Live Period”). As new sales are generated, we charge a fixed fee for services based on the number of the customer’s employees, as opposed to our former billing method for new sales, which included charging customers on a time and materials basis as these services were provided. The Partners for Life program was designed to lower the total cost of implementation services charged to each customer primarily over the Time to Live Period for UltiPro and/or Optional Capabilities, through a fixed fee.

Cost of Revenues

Cost of revenues primarily consists of the costs of recurring and services revenues. Cost of recurring revenues primarily consists of costs to provide maintenance and technical support to Ultimate's customers, the cost of providing periodic updates and the cost of recurring subscription revenues, including hosting data center costs and, to a lesser extent, amortization of capitalized software. Cost of services revenues primarily consists of costs to provide implementation consulting services and training to Ultimate's customers and, to a lesser extent, costs related to sales of payroll-related forms, time clocks and Form W-2 services, as well as costs associated with certain client reimbursable out-of-pocket expenses.

Cost of recurring revenues increased 23.0% to $78.1 million for 2012 from $63.5 million for 2011. The $14.6 million increase in the cost of recurring revenues for the year was primarily due to increases in both cloud costs and customer support and maintenance costs, as described below:

i) The increase in cloud costs was principally as a result of the growth in cloud operations and increased sales, including increased labor costs, increased hosting data center costs and, to a lesser extent, costs related to our payment services (as we continue to grow that business).

ii) The increase in customer support and maintenance costs was primarily due to higher labor costs commensurate with the growth in the number of customers serviced.

Cost of services revenues increased 26.2% to $ 66.1 million for 2012 from $52.3 million for 2011. The $13.8 million increase in cost of services revenues was primarily due to an increase in the cost of implementation. The increased cost of implementation was primarily from higher labor and related costs (particularly in association with increased number of billable consultants) and increased costs of third-party implementation consulting partners from increased usage.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and benefits, sales commissions, travel and promotional expenses, and facility and communication costs for direct sales offices, as well as advertising and marketing costs. Sales and marketing expenses increased 14.9% to $72.6 million for 2012 from $63.1 million for 2011. The $9.5 million increase for the year was primarily due to increased labor and related costs (including higher sales commissions related to increased cloud sales) and, to a lesser extent, increased advertising and marketing costs. Commissions on cloud sales are amortized over the initial contract term (typically 24 months) commencing on the Live date, which corresponds with the related cloud revenue recognition.

Research and Development

Research and development expenses consist primarily of software development personnel costs. Research and development expenses increased 18.2% to $60.7 million in 2012 from $51.4 million in 2011. The $9.3 million increase in research and development expenses during 2012 was principally due to higher labor and related costs attributable to the ongoing development of UltiPro and complementary products, including the impact of increased personnel costs (predominantly from additional headcount) and, to a lesser extent, increased third-party consulting costs, partially offset by capitalized labor costs. We capitalized $5.2 million of computer software development costs related to an internal-use development project to be sold in the future as a cloud product only. There were no such costs capitalized in the year ended December 31, 2011.

General and Administrative

General and administrative expenses consist primarily of salaries and benefits of executive, administrative and financial personnel, as well as external professional fees and the provision for doubtful accounts. General and administrative expenses increased by 16.0% to $25.4 million for 2012 from $21.9 million for 2011. The increase in general and administrative expenses for 2012 was primarily due to increased labor and related costs and, to a lesser extent, an increase in professional fees, partially offset by a decrease in the provision for doubtful accounts.

Interest Expense and Other

Interest expense and other increased $75 thousand, or 18.7%, to $ 476 thousand for 2012 from $401 thousand for 2011.

Other Income, net

Other income, net, increased by 12.1% to $ 102 thousand for 2012 from $91 thousand for 2011. The increase was not significant.

Provision for Income Taxes

In 2012, based on pre-tax income from continuing operations we had income tax expense of $ 14.1 million as compared to $ 11.8 million in 2011. The increase in income tax expense of $2.3 million was primarily due to an increase in pre-tax book income, partially offset by a decrease in non-deductible expenses. Net operating loss carryforwards available at December 31, 2012, which are available to offset future U.S. taxable income, approximated $134.5 million. The carryforwards expire from 2018 through 2032 and from 2013 through 2032, for Federal and state income tax reporting purposes, respectively. The timing and levels of future profitability may result in the expiration of net operating loss carryforwards before utilization.

Additionally, utilization of such net operating losses may be limited as a result of cumulative ownership changes in our equity instruments.

We recognized $19.9 million of deferred tax assets, net of deferred tax liabilities, as of December 31, 2012.

Quarterly Results of Operations

The following table sets forth certain unaudited quarterly results of operations for each of the quarters in the years ended December 31, 2013 and 2012. In management's opinion, this unaudited information has been prepared on the same basis as the audited consolidated financial statements and includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the quarters presented. This information should be read in conjunction with Ultimate's Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K.

Our quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. Our operating results may fluctuate as a result of a number of factors, including, but not limited to, increased expenses (especially as they relate to product development, sales and marketing and the use of third-party consultants), timing of product releases, increased competition, variations in the mix of revenues, announcements of new products by us or our competitors and capital spending patterns of our customers. We establish our expenditure levels based upon our expectations as to future revenues, and, if revenue levels are below expectations, expenses can be disproportionately high. A drop in near term demand for our products could significantly affect both revenues and profits in any quarter. Operating results achieved in previous fiscal quarters are not necessarily indicative of operating results for the full fiscal years or for any future periods. As a result of these factors, there can be no assurance that we will be able to achieve or maintain profitability on a quarterly basis. We believe that, due to the underlying factors for quarterly fluctuations, quarter-to-quarter comparisons of Ultimate's operations are not necessarily meaningful and that such comparisons should not be relied upon as indications of future performance.

Quarters Ended	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
(In thousands, except per share data)								
				(Unaudited)				
Revenues:								
Recurring	90,354	85,244	80,754	78,082	73,416	67,505	64,636	60,873
Services	21,570	17,703	16,392	19,445	18,402	15,127	14,010	17,024
License	(21)	161	323	390	360	—	531	384
Total revenues	111,903	103,108	97,469	97,917	92,178	82,632	79,177	78,281
Cost of revenues:								
Recurring	24,148	23,384	22,543	21,828	20,392	19,390	19,235	19,104
Services	19,884	18,935	18,030	19,728	18,243	16,454	14,843	16,523
License	—	35	73	90	72	—	120	88
Total cost of revenues	44,032	42,354	40,646	41,646	38,707	35,844	34,198	35,715
Gross profit	67,871	60,754	56,823	56,271	53,471	46,788	44,979	42,566
Operating expenses:								
Sales and marketing	25,816	22,481	22,672	22,910	19,238	17,218	17,472	18,637
Research and development	17,668	17,095	16,864	16,130	14,943	14,065	15,989	15,696
General and administrative	10,590	9,067	8,285	8,927	6,857	6,224	6,126	6,145
Total operating expenses	54,074	48,643	47,821	47,967	41,038	37,507	39,587	40,478
Operating income	13,797	12,111	9,002	8,304	12,433	9,281	5,392	2,088
Other (expense) income:								
Interest and other expense	(26)	(67)	(56)	(80)	(122)	(178)	(101)	(75)
Other income, net	25	32	6	41	12	47	30	13
Total other (expense) income, net	(1)	(35)	(50)	(39)	(110)	(131)	(71)	(62)
Income before income taxes	13,796	12,076	8,952	8,265	12,323	9,150	5,321	2,026
Provision for income tax	(3,988)	(5,776)	(4,050)	(3,745)	(6,025)	(4,493)	(2,668)	(1,002)
Net income	$ 9,808	$ 6,300	$ 4,902	$ 4,520	$ 6,298	$ 4,657	$ 2,653	$ 1,024
Earnings per share:								
Basic	0.35	$ 0.23	$ 0.18	$ 0.16	$ 0.23	$ 0.17	$ 0.10	$ 0.04
Diluted	0.34	$ 0.22	$ 0.17	$ 0.16	$ 0.22	$ 0.16	$ 0.09	$ 0.04
Weighted average shares outstanding:								
Basic	28,005	27,871	27,735	27,476	27,207	26,852	26,655	26,394
Diluted	29,192	29,095	28,875	28,704	28,571	28,495	28,281	28,073

Seasonality

We have experienced, and may experience in the future, seasonality in our business, and our business, operating results and financial condition may be affected by such trends in the future. Ultimate's quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. Revenues have historically increased at higher rates in the fourth quarter of the year and at lower rates in the next succeeding quarter. We believe such seasonality is due to a number of factors, including our quota-based compensation arrangements, typical of those used in software companies, and year-end budgetary pressures on our customers. We believe that the seasonal trend that Ultimate has experienced in the past may continue in the foreseeable future.

Liquidity and Capital Resources

In recent years, we have funded operations from cash flows generated from operations and, to a lesser extent, equipment financing and borrowing arrangements.

As of December 31, 2013, we had $88.5 million in cash, cash equivalents and investments in marketable securities, reflecting a net increase of $20.5 million since December 31, 2012. This $20.5 million increase was primarily due to cash provided by operations of $93.4 million (excluding the non-cash impact of the excess tax benefit from stock option exercises) and proceeds from the issuance of Common Stock from employee and non-employee director stock option exercises net of the repurchase of Common Stock of $8.1 million, partially offset by cash purchases of property and equipment (including principal payments on financed equipment) of $34.0 million (which includes $ 17.6 million of capitalized labor costs and third-party consulting fees, paid in cash, associated with an internal-use development project), cash used for the Employtouch Acquisition and the Accel HR Acquisition totaling $25.0 million, cash used to settle employee tax withholding liabilities for vesting of restricted stock awards and restricted stock units of $18.1 million, net payments on borrowings of $2.1 million and, to a lesser extent, the effect of the exchange rate on cash of $1.5 million.

Our operating cash inflows primarily consist of payments received from our customers related to our Cloud Offering. Our operating cash outflows primarily consist of cash we invest in personnel and infrastructure to support the anticipated growth of our business, payments to vendors directly related to our services, payments under arrangements with third party vendors who provide hosting infrastructure services in connection with our Cloud Offering, related sales and marketing costs, costs of operations and systems development and programming costs and, from time to time, payments for acquisitions. Net cash provided by operating activities increased $32.5 million during 2013 as compared with 2012. This increase was primarily due to an increase in operating income and changes in working capital accounts, after adjusting for the impact of non-cash expenses such as depreciation and amortization and expense associated with stock-based compensation awards.

Net cash used in investing activities was $34.4 million for 2013 as compared with $181.1 million for 2012. The $146.7 million decrease from 2012 was primarily attributable to a decrease of $183.3 million in funds received from and held in our bank accounts on behalf of Ultimate's customers using the UltiPro Payment Services offering ("UltiPro Payment Services"), partially offset by an increase in cash purchases of property and equipment of $13.2 million (including an increase of $13.8 million of capitalized labor costs and third-party consulting fees, paid in cash, associated with an internal-use development project) and cash used for the Employtouch Acquisition and the Accel HR Acquisition totaling $25.0 million. Customer funds, temporarily held by us as a result of our UltiPro Payment Services, are held in our bank accounts and invested by us in accordance with our internal investment strategies. These customer funds are invested in U.S. Government money market funds that invest in short-term, high quality money market instruments which consist of U.S. Treasury and U.S. Government Agency obligations and repurchase agreements collateralized by such obligations. The money market funds are rated AAA by Standard & Poor's and Aaa by Moody's.

Net cash used in financing activities was $17.3 million for 2013 as compared with net cash provided by financing activities of $151.9 million for 2012. The $169.2 million decrease in net cash provided by financing activities was primarily related to a decrease of $183.3 million in UltiPro Payment Services funds received and an increase in payments on other borrowings of $1.6 million, partially offset by higher proceeds from the issuance of Common Stock from employee and non-employee director stock option exercises (net of repurchases of Common Stock) of $6.6 million, an increase in excess tax benefits from stock option exercises of $6.9 million and a decrease in cash used to settle employee tax withholding liabilities for the vesting of restricted stock of $2.3 million.

Days sales outstanding ("DSO"), calculated on a trailing three-month basis, as of December 31, 2013 were 70 days as compared with 71 days as of December 31, 2012.

Deferred revenues were $103.2 million at December 31, 2013, as compared with $92.0 million at December 31, 2012. The increase of $11.2 million in deferred revenues for 2013 was primarily due to higher deferred cloud revenues and higher deferred services revenues, partially offset by lower deferred maintenance revenues.

On October 1, 2013, we acquired 100% of the issued and outstanding shares of Employtouch, Inc., in exchange for a combination of cash and restricted shares of Ultimate's Common Stock. Pursuant to the terms of the Employtouch Agreements, we paid a total of $10.4 million (USD) in cash and a total of 17,788 restricted shares of Ultimate's Common Stock which are issuable in three (3) equal installments on April 1, 2014, April 1, 2015 and April 1, 2016 (the "Employtouch Stock Consideration").

On November 15, 2013 (the "Accel HR Closing Date"), pursuant to an asset purchase agreement with Accel HR, LLC, a Delaware limited liability company located in Georgia, and certain members of Accel HR (the "Accel HR Agreement") we acquired certain assets and liabilities of Accel HR in exchange for a combination of cash and restricted shares of Ultimate's Common Stock. Pursuant to the terms of the Accel HR Agreement, we paid a total of $14.6 million (USD) in cash and a total of 22,017 restricted shares of Ultimate's Common Stock which are issuable in three (3) equal installments on the first, second and third anniversaries of the Accel HR Closing Date (the "Accel HR Stock Consideration").

In addition, as part of both acquisitions, we incurred direct costs totaling $0.6 million (which were expensed as incurred). See Note 4 of the Notes to Consolidated Financial Statements for information regarding the purchase price allocation for the Employtouch Acquisition and the Accel HR Acquisition.

Ultimate believes that cash and cash equivalents, investments in marketable securities and cash generated from operations will be sufficient to fund our operations for at least the next 12 months. This belief is based upon, among other factors, management’s expectations for future revenue growth, controlled expenses and collections of accounts receivable.

We did not have any material commitments for capital expenditures as of December 31, 2013.

Off-Balance Sheet Arrangements

We do not, and, as of December 31, 2013, we did not, have any off-balance sheet arrangements (as that term is defined in applicable SEC rules) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Non-GAAP Financial Measures

Item 10 (e) of Regulation S-K, "Use of Non-GAAP Financial Measures in Commission Filings," defines and prescribes the use of non-GAAP financial information. Our measure of Non-GAAP Operating Income, which excludes non-cash stock-based compensation and amortization of acquired intangibles, meets the definition of a non-GAAP financial measure.

Ultimate believes that this non-GAAP measure of financial results provides useful information to management and investors regarding certain financial and business trends relating to Ultimate's financial condition and results of operations. Ultimate's management uses this non-GAAP result to compare Ultimate's performance to that of prior periods for trend analyses, for purposes of determining executive incentive compensation, and for budget and planning purposes. This measure is used in monthly financial reports prepared for management and in quarterly financial reports presented to Ultimate's Board of Directors. This measure may be different from non-GAAP financial measures used by other companies.

This non-GAAP measure should not be considered in isolation or as an alternative to such measures determined in accordance with generally accepted accounting principles in the United States (GAAP). The principal limitation of this non-GAAP financial measure is that it excludes significant expenses that are required by GAAP to be recorded. In addition, it is subject to inherent limitations as it reflects the exercise of judgment by management about which expenses are excluded from the non-GAAP financial measure.

To compensate for these limitations, Ultimate presents its non-GAAP financial measure in connection with its GAAP result. Ultimate strongly urges investors and potential investors in Ultimate's securities to review the reconciliation of its non-GAAP financial measure to the comparable GAAP financial measure that is included in the table below and not to rely on any single financial measure to evaluate its business.

We exclude the following items from the non-GAAP financial measure, Non-GAAP Operating Income, as appropriate:

Stock-based compensation expense. Ultimate's non-GAAP financial measure of Non-GAAP Operating Income excludes non-cash stock-based compensation expense, which consists of expenses for stock options and stock and stock unit awards recorded in accordance with Accounting Standards Codification 718, “Compensation - Stock Compensation.” For the years ended December 31, 2013, 2012 and 2011, stock-based compensation expense was $32.8 million, $20.4 million and $15.0 million, respectively, on a pre-tax basis. Stock-based compensation expense is excluded from the non-GAAP financial measures because it is a non-cash expense that Ultimate does not consider part of ongoing operations when assessing its financial performance. Ultimate believes that such exclusion facilitates the comparison of results of ongoing operations for current and future periods with such results from past periods. For GAAP net income periods, non-GAAP reconciliations are calculated on a diluted weighted average share basis.

Amortization of acquired intangible assets. In accordance with GAAP, operating expenses include amortization of acquired intangible assets over the estimated useful lives of such assets. There was no amortization of acquired intangible assets for the year ended December 31, 2012. For the years ended December 31, 2013 and 2011, the amortization of acquired intangible assets was $0.2 million and $0.1million, respectively. Amortization of acquired intangible assets is excluded from Ultimate's non-GAAP financial measures because it is a non-cash expense that Ultimate does not consider part of ongoing operations when assessing its financial performance. Ultimate believes that such exclusion facilitates comparisons to its historical operating results and to the results of other companies in the same industry, which have their own unique acquisition histories.

	For the Year Ended		
	2013	2012	2011
Non-GAAP operating income reconciliation:			
Operating income	$ 43,214	$ 29,113	$ 16,432
Operating income, as a % of total revenues	*10.5%*	*8.8%*	*6.1%*
Add back:			
Non-cash stock-based compensation expense	32,807	20,412	15,005
Non-cash amortization of acquired intangible assets	242	—	83
Non-GAAP operating income	$ 76,263	$ 49,525	$ 31,520
Non-GAAP operating income, as a % of total revenues	*18.6%*	*14.9%*	*11.7%*

Contractual Obligations

As of December 31, 2013, Ultimate's outstanding contractual cash obligations were as follows (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Capital lease obligations (1)	$ 5,189	$ 3,013	$ 2,176	$ —	$ —
Other long-term obligations (2)	30,702	10,261	14,292	5,425	724
Purchase obligations (3)	—	—	—	—	—
Other long-term liabilities	—	—	—	—	—
Total contractual cash obligations	$ 35,891	$ 13,274	$ 16,468	$ 5,425	$ 724

(1) We lease certain computer equipment under non-cancelable agreements, which are accounted for as capital leases and expire at various dates through 2016. See Note 13 of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K for information regarding capital lease obligations.

(2) Included in other long-term obligations were Ultimate's leases for corporate office space and certain equipment under non-cancelable operating lease agreements expiring at various dates. Also included in other long-term obligations is a software license agreement with a third-party vendor, payable over a four-year period. See Note 17 of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K for information regarding operating lease obligations and the software license agreement. Other long-term obligations also included borrowings to purchase perpetual licenses with third-party vendors, payable over a three-year period. See Note 14 of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K for information regarding other borrowings.

(3) Purchase orders or contracts for the purchase of goods and services are not included in the table above. Ultimate is not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase goods and services rather than binding agreements. Ultimate does not have significant agreements for the purchase of goods or services specifying minimum quantities or set prices.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

In the ordinary course of Ultimate's operations, we are exposed to certain market risks, primarily interest rate risk and foreign currency risk. Risks that are either non-financial or non-quantifiable, such as political, economic, tax, or regulatory risks, are not included in the following assessment of our market risks.

Interest Rate Risk. Ultimate is subject to financial market risks, including changes in interest rates which influence the valuations of its fixed income investment portfolio. Changes in interest rates could also impact Ultimate's anticipated interest income from interest-bearing cash accounts, or cash equivalents and investments in marketable securities. We manage financial market risks, including interest rate risks, in accordance with our investment guideline objectives, including:

- Maximum safety of principal;
- Maintenance of appropriate liquidity for regular cash needs;
- Maximum yields in relationship to guidelines and market conditions;
- Diversification of risks; and
- Fiduciary control of all investments.

Ultimate targets its fixed income investment portfolio to have maturities of 24 months or less. Investments are held to enhance the preservation of capital and not for trading purposes.

Cash equivalents consist of money market accounts with original maturities of less than three months. Short-term investments include obligations of U.S. government agencies and corporate debt securities. Corporate debt securities include commercial paper which, according to Ultimate's investment guidelines, must carry minimum short-term ratings of P-1 by Moody's Investor Service, Inc. ("Moody's") and A-1 by Standard & Poor's Ratings Service, a Division of The McGraw-Hill Companies, Inc. ("S&P"). Other corporate debt obligations must carry a minimum rating of A-2 by Moody's or A by S&P. Asset-backed securities must carry a minimum AAA rating by Moody's and S&P with a maximum average life of two years at the time of purchase.

As of December 31, 2013, total investments in available-for-sale marketable securities were $10.5 million.

As of December 31, 2013, virtually all of the investments in Ultimate's portfolio were at fixed rates (with a weighted average interest rate of 0.2% per annum).

To illustrate the potential impact of changes in interest rates, Ultimate has performed an analysis based on its December 31, 2013 consolidated balance sheet and assuming no changes in its investments. Under this analysis, an immediate and sustained 100 basis point increase in the various base rates would result in a decrease in the fair value of Ultimate's total portfolio of approximately $105 thousand over the next 12 months. An immediate and sustained 100 basis point decrease in the various base rates would result in an increase in the fair value of Ultimate's total portfolio of approximately $178 thousand over the next 12 months.

Foreign Currency Risk. Ultimate has foreign currency risks related to its revenue and operating expenses denominated in currencies other than the U.S. dollar. Management does not believe movements in the foreign currencies in which Ultimate transacts business will significantly affect future net income.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Ultimate Software Group, Inc.:

We have audited the accompanying consolidated balance sheets of The Ultimate Software Group, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Ultimate Software Group, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2014 expressed an unqualified opinion on the effectiveness of The Ultimate Software Group, Inc.'s internal control over financial reporting.

/s/ KPMG LLP

February 28, 2014
Jacksonville, Florida
Certified Public Accountants

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2013	2012
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 79,794	$ 58,817
Investments in marketable securities	8,682	9,223
Accounts receivable, net of allowance for doubtful accounts of $675 for 2013 and $475 for 2012, respectively	85,676	70,774
Prepaid expenses and other current assets	29,374	25,949
Deferred tax assets, net	1,015	1,372
Total current assets before funds held for customers	204,541	166,135
Funds held for customers	262,227	281,007
Total current assets	466,768	447,142
Property and equipment, net	58,186	38,068
Capitalized software, net	—	508
Goodwill	26,942	3,025
Investments in marketable securities	1,771	1,311
Intangible assets, net	8,274	—
Other assets, net	17,340	16,687
Deferred tax assets, net	18,913	18,543
Total assets	$ 598,194	$ 525,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,422	$ 7,584
Accrued expenses	26,040	15,055
Deferred revenue	102,686	90,674
Capital lease obligations	2,949	2,968
Other borrowings	2,264	2,311
Total current liabilities before customer funds obligations	140,361	118,592
Customer funds obligations	262,227	281,007
Total current liabilities	402,588	399,599
Deferred revenue	498	1,302
Deferred rent	2,687	2,777
Capital lease obligations	2,240	2,469
Other borrowings	593	2,601
Deferred income tax liability	1,371	—
Income taxes payable	—	1,866
Total liabilities	409,977	410,614
Commitments and contingencies (Note 17)	—	—
Stockholders' equity:		
Series A Junior Participating Preferred Stock, $.01 par value, 500,000 shares authorized, no shares issued	—	—
Preferred Stock, $.01 par value, 2,000,000 shares authorized, no shares issued	—	—
Common Stock, $.01 par value, 50,000,000 shares authorized, 32,132,376 and 31,396,498 shares issued as of 2013 and 2012, respectively	321	314
Additional paid-in capital	315,691	266,130
Accumulated other comprehensive income (loss)	(1,442)	109
Accumulated deficit	(7,809)	(33,339)
	306,761	233,214
Treasury stock, at cost, 4,053,835 shares in 2013 and 2012	(118,544)	(118,544)
Total stockholders' equity	188,217	114,670
Total liabilities and stockholders' equity	$ 598,194	$ 525,284

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2013	2012	2011
	(in thousands, except per share data)		
Revenues:			
Recurring	$ 334,434	$ 266,430	$ 213,785
Services	75,110	64,563	53,195
License	853	1,275	2,218
Total revenues	410,397	332,268	269,198
Cost of revenues:			
Recurring	91,903	78,121	63,505
Services	76,577	66,063	52,341
License	198	280	488
Total cost of revenues	168,678	144,464	116,334
Gross profit	241,719	187,804	152,864
Operating expenses:			
Sales and marketing	93,879	72,565	63,145
Research and development	67,757	60,693	51,356
General and administrative	36,869	25,433	21,931
Total operating expenses	198,505	158,691	136,432
Operating income	43,214	29,113	16,432
Other (expense) income:			
Interest expense	(229)	(476)	(401)
Other income, net	104	102	91
Total other (expense) income, net	(125)	(374)	(310)
Income from operations	43,089	28,739	16,122
Provision for income taxes	(17,559)	(14,107)	(11,840)
Net income	$ 25,530	$ 14,632	$ 4,282
Net income per share:			
Basic	$ 0.92	$ 0.55	$ 0.17
Diluted	$ 0.88	$ 0.52	$ 0.15
Weighted average shares outstanding:			
Basic	27,773	26,778	25,814
Diluted	29,013	28,375	27,806

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	For the Years Ended December 31,		
	2013	2012	2011
Net income	$ 25,530	$ 14,632	$ 4,282
Other comprehensive (loss) income :			
Unrealized (loss) gain on investments in marketable available for sale securities	4	(1)	(4)
Unrealized gain (loss) on foreign currency translation adjustments	(1,549)	166	(181)
Other comprehensive income (loss), before tax	(1,545)	165	(185)
Income tax (expense) benefit related to items of other comprehensive income	(6)	1	2
Other comprehensive income (loss), net of tax	$ (1,551)	$ 166	$ (183)
Comprehensive income	$ 23,979	$ 14,798	$ 4,099

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid -in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance, December 31, 2010	**29,027**	**$ 290**	**$216,262**	**$ 126**	**$ (52,253)**	**3,595**	**$ (91,440)**	**$ 72,985**
Net income	—	—	—	—	4,282	—	—	4,282
Realized foreign currency translation adjustment, net of tax								—
Unrealized gain on investments in marketable securities available-for-sale, net of tax	—	—	—	(2)	—	—	—	(2)
Unrealized gain on foreign exchange, net of tax				(181)				(181)
Shares acquired to settle employee tax withholding liability	—	—	(10,941)	—	—	—	—	(10,941)
Excess tax benefits from employee stock plan	—	—	8,504	—	—	—	—	8,504
Repurchases of Common Stock	—	—	—	—	—	347	(17,310)	(17,310)
Issuances of Common Stock from exercises of stock options	776	8	13,270	—	—	—	—	13,278
Issuances of Common Stock from restricted stock releases	401	4						4
Non-cash stock-based compensation expense for stock options, restricted stock and restricted stock units	—	—	15,005	—	—	—	—	15,005
Balance, December 31, 2011	**30,204**	**$ 302**	**$242,100**	**$ (57)**	**$ (47,971)**	**3,942**	**$(108,750)**	**$ 85,624**
Net income	—	—	—	—	14,632	—	—	14,632
Unrealized loss on investments in marketable securities available-for-sale, net of tax	—	—	—	—	—	—	—	—
Unrealized loss on foreign exchange, net of tax				166				166
Shares acquired to settle employee tax withholding liability	—	—	(20,384)	—	—	—	—	(20,384)
Excess tax benefits from employee stock plan	—	—	12,310	—	—	—	—	12,310
Repurchases of Common Stock	—	—	—	—	—	112	(9,794)	(9,794)
Issuances of Common Stock from exercises of stock options	751	8	11,272	—	—	—	—	11,280
Issuances of Common Stock from restricted stock releases	442	4						4
Non-cash stock-based compensation expense for stock options, restricted stock and restricted stock units	—	—	20,832	—	—	—	—	20,832
Balance, December 31, 2012	**31,397**	**$ 314**	**$266,130**	**$ 109**	**$ (33,339)**	**4,054**	**$(118,544)**	**$ 114,670**
Net income	—	—	—	—	25,530	—	—	25,530
Unrealized loss on investments in marketable securities available-for-sale, net of tax	—	—	—	(2)	—	—	—	(2)
Unrealized loss on foreign exchange, net of tax				(1,549)				(1,549)
Shares acquired to settle employee tax withholding liability	—	—	(18,058)	—	—	—	—	(18,058)
Excess tax benefits from employee stock plan	—	—	19,167	—	—	—	—	19,167
Stock consideration for acquisitions	—	—	6,115	—	—	—	—	6,115

	Common Stock		Additional Paid -in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Issuances of Common Stock from exercises of stock options	440	4	8,132	—	—	—	—	8,136
Issuances of Common Stock from restricted stock releases	296	3	—	—	—	—	—	3
Non-cash stock-based compensation expense for stock options, restricted stock and restricted stock units	—	—	34,205	—	—	—	—	34,205
Balance, December 31, 2013	**32,133**	**$ 321**	**$315,691**	**$ (1,442)**	**$ (7,809)**	**4,054**	**$(118,544)**	**$ 188,217**

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cash flows from operating activities:			
Net income	$ 25,530	$ 14,632	$ 4,282
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,058	13,623	11,620
Provision for doubtful accounts	2,523	1,159	1,586
Non-cash stock-based compensation expense	32,807	20,412	15,009
Income taxes	17,347	13,814	11,507
Excess tax benefits from employee stock plan	(19,167)	(12,310)	(8,504)
Changes in operating assets and liabilities:			
Accounts receivable	(16,784)	(15,747)	(10,202)
Prepaid expenses and other current assets	(2,982)	(1,880)	(4,331)
Other assets	(403)	(1,631)	(3,483)
Accounts payable	(1,415)	1,319	1,582
Accrued expenses and deferred rent	10,752	2,859	877
Deferred revenue	9,946	5,413	8,468
Net cash provided by operating activities	74,212	41,663	28,411
Cash flows from investing activities:			
Purchases of marketable securities	(10,741)	(13,643)	(14,610)
Maturities of marketable securities	10,819	12,239	14,794
Payments for acquisitions, net of cash acquired	(24,995)	—	—
Net purchases of securities with customer funds	20,908	(162,347)	(45,785)
Purchases of property and equipment	(30,421)	(17,326)	(13,671)
Net cash used in investing activities	(34,430)	(181,077)	(59,272)
Cash flows from financing activities:			
Repurchases of Common Stock	—	(9,794)	(17,310)
Net proceeds from issuances of Common Stock	8,139	11,284	13,282
Excess tax benefits from employee stock plan	19,167	12,310	8,504
Shares acquired to settle employee tax withholding liabilities	(18,058)	(20,384)	(10,941)
Principal payments on capital lease obligations	(3,541)	(3,418)	(3,016)
Repayments of other borrowings	(2,055)	(429)	—
Net increase in customer fund obligations	(20,908)	162,347	45,785
Net cash (used in) provided by financing activities	(17,256)	151,916	36,304
Effect of exchange rate changes on cash	(1,549)	166	(183)
Net increase in cash and cash equivalents	20,977	12,668	5,260
Cash and cash equivalents, beginning of year	58,817	46,149	40,889
Cash and cash equivalents, end of year	$ 79,794	$ 58,817	$ 46,149

Supplemental disclosure of cash flow information:

Cash paid for interest	$ 358	$ 419	$ 241
Cash paid for taxes	$ 476	$ 471	$ 604
Non-cash investing and financing activities:			
Capital lease obligations to acquire new equipment	$ 3,293	$ 3,986	$ 2,928
Stock consideration recorded for acquisitions	$ 6,115	$ —	$ —

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

The Ultimate Software Group, Inc. and subsidiaries ("Ultimate," "we," "us" or "our") is a leading provider of cloud-based human capital management ("HCM"). Ultimate's UltiPro software ("UltiPro") is a comprehensive, easy-to-use solution delivered primarily over the Internet to organizations based in the United States and Canada, including those with global employees. UltiPro is designed to deliver the functionality businesses need to manage the complete employment life cycle from recruitment to retirement. We market our UltiPro solutions primarily to enterprise companies, which we define as companies with more than 1,500 employees, and mid-market companies, which we define as having approximately 500-1,500 employees. UltiPro is marketed primarily through our enterprise and mid-market direct sales teams.

2. Basis of Presentation, Consolidation and the Use of Estimates

The accompanying consolidated financial statements of Ultimate have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC").

The consolidated financial statements included herein reflect all adjustments, which are, in the opinion of Ultimate's management, necessary for a fair presentation of the information for the periods presented. The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, revenue recognition, income taxes, the allowance for doubtful accounts, the valuation of deferred tax assets and long-lived assets, among others discussed below. Actual results could differ from those estimates.

The consolidated financial statements reflect the financial position and operating results of Ultimate and include its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

3. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Cash and Cash Equivalents

All highly liquid instruments with an original maturity of three months or less when acquired are considered cash equivalents and are comprised of interest-bearing accounts.

Accounts Receivable

Accounts receivable are principally from end-users of Ultimate's products. We perform credit evaluations of our customers and have recorded allowances for estimated losses. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on accounts receivable. A considerable amount of judgment is required when the realization of receivables is assessed, including assessing the probability of collection and current credit-worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in a further impairment of their ability to make payments, an additional provision for doubtful accounts may be required. We charge off uncollectible amounts against the allowance for doubtful accounts in the period in which we determine they are uncollectible.

Funds Held for Customers and Customers' Funds Obligations

Ultimate has the right to market and distribute an independent third party's tax filing solution that Ultimate has branded UltiPro Payment Services. Ultimate's UltiPro Payment Services product provides payment services to our customers. These payment services are being sold directly by us to our customers only on a per-employee-per-month ("PEPM") basis in conjunction with UltiPro, our core product. In connection with our UltiPro Payment Services product, we receive funds from our customers and hold such funds for purposes of paying the appropriate taxing authorities on behalf of such customers. We hold our customers' payment services deposits for the period between collection from our customers and remittance to the applicable taxing authority. These funds held for customers and the corresponding customer funds obligations are included in current assets and current liabilities, respectively, in our consolidated balance sheets as of December 31, 2013 and 2012. We have reported the cash flows for purchases of securities with funds received from UltiPro Payment Services customers in the investing activities section of the consolidated statements of cash flows for the years ended December 31, 2013, 2012 and 2011. We have reported the cash flows related to the funds received and paid on behalf of such customers to the applicable taxing authorities in the financing activities section of the consolidated statements of cash flows for the years ended December 31, 2013, 2012 and 2011. The associated PEPM fees for UltiPro Payment Services are included in recurring revenues in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011. The associated interest earned was not material for the years ended December 31, 2013, 2012 and 2011.

Fair Value of Financial Instruments

Ultimate's financial instruments, consisting of cash and cash equivalents, investments in marketable securities, funds held for customers and the related obligations, accounts receivable, accounts payable, and capital lease obligations and other borrowings, approximated fair value (due to relatively short maturity) as of December 31, 2013 and 2012.

Prepaid Expenses and Other Current Assets

Ultimate's financial statements include prepaid expenses and other current assets which include prepaid commissions on cloud sales. Prepaid expenses are amortized over the life of the asset (typically within one year) and commissions on cloud sales are amortized over the initial contract term (typically 24 months) commencing on the day the customer processes its first live payroll using UltiPro (also referred to as going "Live"), which corresponds with the related cloud revenue recognition. The portion of prepaid commissions that extends beyond one year is classified in other assets, net in the consolidated balance sheets as of December 31, 2013 and 2012.

Long-Lived Assets

We evaluate the carrying value of long-lived assets when indicators of impairment exist. For the year ended December 31, 2013, no such events or circumstances were identified. The carrying value of a long-lived asset is considered impaired when the undiscounted expected future cash flows from such asset (or asset group) are separately identifiable and less than the asset's (or asset group's) carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. For the years ended December 31, 2013, 2012 and 2011, we recorded no impairment of our long-lived assets.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, which range from 2 to 20 years. Leasehold improvements and assets under capital leases are amortized over the shorter of the life of the asset or the term of the lease over periods ranging from approximately 3 to 15 years. Maintenance and repairs are charged to expense when incurred; betterments are capitalized. Upon the sale or retirement of assets, the cost, accumulated depreciation and amortization are removed from the accounts and any gain or loss is recognized.

Computer Software Development Costs

We previously capitalized software costs in accordance with Accounting Standards Codification ("ASC") Topic 985-20, *Costs of Software to Be Sold, Leased, or Marketed.* Those capitalized software costs were fully amortized as of December 31, 2013.

Computer software development costs related to software developed for internal use falls under the accounting guidance of ASC Topic 350-40, *Intangibles Goodwill and Other–Internal Use Software*, in which computer software costs are expensed as incurred during the preliminary project stage and capitalization begins in the application development stage once the capitalization criteria are met. Costs associated with post implementation activities are expensed as incurred. Costs capitalized during the application development stage include external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the internal-use computer software. In addition to capitalizing costs for software (which are used by us in our general operations, for internal purposes), we also capitalize costs under ASC Topic 350-40 for certain software development projects related to our suite of products sold to our customers exclusively on a subscription basis under our software-as-a-service offering of UltiPro (the "Cloud Offering").

Deferred Revenue

Deferred revenue is primarily comprised of deferrals for recurring revenues for cloud services which are recognized over the term of the related contract as the services are performed, typically two years; maintenance services which have not yet been rendered which are recognized ratably over the related annual maintenance period; implementation consulting services for which the services have not yet been rendered which are primarily recognized prior to the respective Live date; and subscription revenues which are recognized ratably over the minimum term of the related contract upon the delivery of the services.

Guarantees

The standard commercial terms in our sales contracts for UltiPro include an indemnification clause that indemnifies the customer against certain liabilities and damages arising from any claims of patent, copyright, or other proprietary rights of any third party. Due to the nature of the intellectual property indemnification provided to our customers, we cannot estimate the fair value, or determine the total nominal amount, of the indemnification until such time as a claim for such indemnification is made. In the event of a claim made against us under such provision, we evaluate estimated losses for such indemnification considering such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, Ultimate has not had any claims made against it under such provision and, accordingly, has not accrued any liabilities related to such indemnifications in its consolidated financial statements.

Segment Information

Public companies are required to report selected information about operating segments in annual and interim financial reports to shareholders, as well as related disclosures about an enterprise's business segments, products, services, geographic areas and major customers. Ultimate operates its business as a single segment and is comprised as a single reporting unit.

Revenue Recognition

We recognize revenues in accordance with Accounting Standards Update No. 2009-13, " Multiple-Deliverable Revenue Arrangements" ("ASU 2009-13"). We use the relative selling price method to allocate the total consideration to units of accounting in a multiple element arrangement. We allocate revenue in an arrangement using the estimated selling price ("ESP") of deliverables if it does not have vendor-specific objective evidence ("VSOE") or third-party evidence ("TPE") of selling price.

VSOE is the price charged when the same or similar product or service is sold separately. We define VSOE as a median price of recent stand-alone transactions that are priced within a narrow range.

TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. However, due to the difficulty in obtaining sufficient information on competitor pricing and differences in our product offerings when compared with those of our peers, we generally are unable to reliably determine TPE.

ESP is our best estimate of the selling price of an element in a transaction. If we are unable to establish selling price using either VSOE or TPE, we will use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact business if the product or service were sold by us on a stand-alone basis. Our determination of ESP involves the use of a customary discount from the list (or book) price for each element, with the discounted price applied within a narrow range. The customary discount is derived from historical data that has been analyzed to determine trends and patterns. We analyze the customary discount used for determining ESP on no less than an annual basis.

We evaluate each deliverable in our arrangements to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to our customers. Our products and services continue to qualify as separate units of accounting under ASU 2009-13.

There are two major elements in our multiple element arrangements for the delivery of our Cloud Offering, which are recurring revenues (i.e., cloud subscription revenues and customer support and maintenance revenues) and services revenues (mostly implementation consulting services).

For multiple element arrangements, the consideration allocated to cloud subscription revenues is recognized as recurring revenues over the initial contract period, as those services are delivered, commencing with the Live date of the related product. The consideration allocated to fixed fee implementation consulting services in multiple element arrangements is recognized as services revenues on a percentage of completion basis, using reasonably dependable estimates with respect to milestones achieved (in relation to progression through implementation phases), by product.

Single element arrangements typically consist of renewals for cloud subscriptions and renewal maintenance agreements. In addition, subsequent to the introduction of the Partners for Life program, implementation consulting services sold on a time and materials basis typically represent single element arrangements. Under these single element arrangements, cloud subscription and maintenance revenues are recognized over the related renewal period, as the services are delivered, and implementation consulting services are recognized as the services are performed.

We recognize revenues when all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- the fees are fixed and determinable; and
- collection is considered probable.

If collection is not considered probable, we recognize revenues when the fees are collected. If the fees are not fixed and determinable, we recognize revenues when the fees become due from the customer. If non-standard acceptance periods or non-standard performance criteria are required, we recognize revenue when the acceptance period expires or upon the satisfaction of the acceptance/performance criteria, as applicable.

The majority of services revenues are recognized over the implementation period, which is from the contract execution date until the Live date. Cloud revenues are recognized over the initial contract term, beginning in the month the customer goes Live.

Recurring Revenues

Recurring revenues consist of subscription revenues recognized from our Cloud Offering, as well as customer support and maintenance revenues.

i) Cloud subscription revenues are principally derived from per-employee-per-month ("PEPM") fees earned from the Cloud Offering and from sales of hosting services on a stand-alone basis to customers who already own a perpetual license ("Base Hosting"). Ongoing PEPM fees from the Cloud Offering and, to a lesser extent, Base Hosting are recognized as subscription revenues as the services are delivered, commencing when the customer goes Live.

ii) Customer support and maintenance revenues are derived from maintaining, supporting, and providing periodic updates of our software for our hosting services. Since we stopped selling perpetual licenses to our new customers effective April 1, 2009, customer support and maintenance revenues stem from annual renewals.

Under our Cloud Offering, our customers do not have the right to take possession of our software and these arrangements are considered service contracts. The selling price of multiple deliverables in cloud arrangements is derived for each element based on the guidance provided by ASU 2009-13. The multiple elements that typically exist in cloud arrangements include (1) recurring revenues from the combination of hosting services, the right to use UltiPro, and maintenance of UltiPro (i.e., product enhancements, updates and customer support) and (2) professional services (i.e., primarily implementation consulting services).

The pricing for the three elements that pertain to recurring revenues (i.e., hosting services, the right to use UltiPro and maintenance of UltiPro) is bundled. Since these three bundled elements are components of recurring revenues in the consolidated statements of income, allocation of selling price to each of the three elements is not necessary and they are not reported separately. Selling price, which is established through VSOE, for the bundled elements, as a whole, is determined on the basis of renewal pricing, without taking into consideration potential price increases or potential changes in the number of employees of the customer in the future due to the uncertainties surrounding these potential occurrences. These bundled elements are provided on an ongoing basis, represent undelivered elements and are recognized on a monthly basis as the related services are performed, commencing once the customer goes Live.

Services Revenues

Services revenues primarily include revenues from fees charged for implementation consulting services in connection with the implementation of our product solutions and, to a much lesser extent, training of customers in the use of our products and fees for other services, including the provision of payroll-related forms, sales of time clocks and the printing of W-2 forms for certain customers, as well as certain client reimbursable out-of-pocket expenses.

Prior to the introduction of the Partners for Life program in the second half of 2010, our multiple element sales contracts included recurring cloud revenues, priced on a PEPM basis, and implementation consulting services, priced on a time and materials basis. As the Partners for Life program has evolved, the vast majority of multiple element contracts contain recurring cloud revenues and implementation consulting services priced on a fixed fee basis. Time and materials implementation consulting services are still sold but, generally, as stand-alone sales not directly related to the basic implementation of the cloud product. The total arrangement consideration is allocated to services elements in the arrangement based on relative selling prices, using the prices established when the services are sold on a stand-alone basis. Selling price is established through ESP for fixed fee implementation consulting services related to our Partners for Life program.

Revenues from implementation consulting services sold on a fixed-fee basis are recognized using the percentage of completion accounting method, which involves the use of estimates. Percentage of completion is measured at each reporting date based on progress made to date, using reasonably dependable estimates with respect to milestones achieved or billable hours, as applicable.

Revenues from implementation consulting services, billed on a time and materials basis (at an hourly rate), are recognized as these services are performed. Other services are recognized as the product is shipped or as the services are rendered, depending on the specific terms of the related arrangement.

Business Combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed at the acquisition date based upon their estimated fair values. Goodwill as of the acquisition date represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets acquired and liabilities assumed. The purchase price allocation and valuation of the acquisition require management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets.

The estimates used in valuing certain of the intangible assets include, but are not limited to: future expected cash flows of the assets, discount rates to determine the present value of the future cash flows, financial projections of the acquired business, attrition rates of customers and expected technology life cycles. We also estimate the useful lives of the intangible assets based on the expected period over which we anticipate generating economic benefit from the asset.

Our estimates of fair value are based on assumptions believed to be reasonable at that time. If management made different estimates or judgments, material differences in the fair values of the net assets acquired may result.

The fair value of assets acquired and liabilities assumed was based upon a preliminary purchase price allocation and our estimates and assumptions are subject to change within the measurement period.

Goodwill and Intangible Assets

The purchase price of an acquired company is allocated between intangible assets and the net tangible assets of the acquired business with the residual of the purchase price recorded as goodwill. The determination of the value of the intangible assets acquired involves certain judgments and estimates. These judgments and estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future and the appropriate weighted average cost of capital.

At December 31, 2013, our goodwill totaled $26.9 million and our identifiable net intangible assets totaled $8.3 million. We assess the impairment of goodwill of our reporting unit annually, or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. We consider both market and discounted cash flow approaches to determine the fair value of the reporting unit. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow approach uses expected future operating results. Failure to achieve these expected results may cause a future impairment of goodwill at the reporting unit. We conducted our annual impairment test of goodwill as of December 31, 2013. 2012 and 2011. As a result of this test, we determined that no adjustment to the carrying value of goodwill for our reporting unit was required.

We evaluate our amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset or group of assets. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. We also evaluate the estimated remaining useful lives of intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. Assumptions and estimates about future values and remaining useful lives of our intangible assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends and internal factors such as changes in our business strategy and our internal forecasts.

Cost of Revenues

Cost of revenues primarily consists of the costs of recurring and services revenues. Cost of recurring revenues primarily consists of costs to provide maintenance and technical support to our customers, the cost of providing periodic updates and the cost of recurring subscription revenues, including amortization of capitalized software. Cost of services revenues primarily consists of costs to provide implementation consulting services and, to a lesser degree, training to our customers, costs related to sales of payroll-related forms, time clocks and costs associated with certain client reimbursable out-of-pocket expenses.

Stock-Based Compensation

Our Amended and Restated 2005 Equity and Incentive Plan (the “Plan”) authorizes the grant of options to non-employee directors, officers and employees of Ultimate to purchase shares of Ultimate’s Common Stock. The Plan also authorizes the grant to such persons of restricted and non-restricted shares of Common Stock, stock appreciation rights, stock units and cash performance awards (collectively, together with stock options, the “Awards”). Prior to the adoption of the Plan, options to purchase shares of Common Stock were issued under our Nonqualified Stock Option Plan (the “Prior Plan”). Beginning in 2009, we began making grants to employees of restricted stock units in lieu of stock options.

As of December 31, 2013, the aggregate number of shares of Common Stock that were available to be issued under all Awards granted under the Plan was 1,468,486 shares.

The Plan provides broad discretion to the Compensation Committee of the Board of Directors to create appropriate equity incentives for directors, officers and employees of Ultimate. The Plan is intended to attract and retain talented employees and align employee and stockholder interests.

For purposes of calculating and accounting for stock-based compensation expense (“SBC”) in accordance with ASC 718, “Compensation – Stock Compensation” (“ASC 718”) for restricted stock awards and restricted stock units, we measure compensation based on the closing market price of our Common Stock at the date of grant and it is recognized on a straight-line basis over the vesting period. We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The weighted-average forfeiture rate is based on historical data.

In accordance with ASC 718, Ultimate capitalizes the portion of SBC expense attributed to research and development personnel whose labor costs are being capitalized pursuant to ASC Topic 350-40, *Intangibles Goodwill and Other-Internal Use Software*, related to software development. The following table summarizes SBC recognized by the Company (in thousands):

	For the Years Ended December 31,		
	2013	**2012**	**2011**
SBC - Statements of income	$ 32,807	$ 20,412	$ 15,005
SBC - Capitalized software	1,398	420	—
SBC - Statements of stockholders' equity	$ 34,205	$ 20,832	$ 15,005

Rental Costs Incurred in Relation to a Construction Period

We have incurred rental costs associated with operating leases during the construction period. Rental costs incurred during a construction period are costs incurred for the right to control the use of a leased asset during and after construction of a leased asset. Since there is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period, rental costs associated with ground or building operating leases that are incurred during a construction period are recognized as rental expense on a straight-line basis.

Income Taxes

We are subject to Federal, foreign and state corporate income taxes. We account for income taxes using an asset and liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable.

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

We assess the likelihood that Ultimate will be able to recover its deferred tax assets. Management considers all available evidence, both positive and negative, including historical levels of pre-tax book income, expiration of net operating losses, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies, as well as current tax laws and interpretation of current tax laws, in assessing the need for a valuation allowance. If recovery is not likely, we record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. The available positive evidence at December 31, 2013 included, among other factors, three years of cumulative historical pre-tax book income and a projection of future pre-tax book income and taxable income sufficient to realize all of our remaining deferred tax assets. As a result of our analysis of all available evidence, both positive and negative, at December 31, 2013, it was considered more likely than not that a full valuation allowance for deferred tax assets was not required. See Note 15 for further discussion.

In applying ASC Topic 740's intra-period allocation provisions, excess benefits from stock-based deductions are recognized last using a *with-and-without* approach, excluding indirect tax effects.

ASC 740, "Income Taxes" ("ASC 740"), clarified the accounting for uncertainty in income taxes recognized in a company's financial statements. Specifically, ASC 740 prescribed a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on the related de-recognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. Our accounting policy is to record the tax effects of a change in the opening balance of the unrecognized tax benefits (including unrecognized tax benefits related to prior-period discontinued operations) in current-period income (loss) from continuing operations. We recognize interest and penalties accrued related to unrecognized tax benefits as components of our income tax provision. We did not have any interest and penalties accrued upon the adoption of ASC 740, and, as of December 31, 2013 and 2012, we did not have any interest and penalties accrued related to unrecognized tax benefits.

Reimbursable Out-Of-Pocket Expenses

Reimbursable out-of-pocket expenses, which are included in services revenues and cost of services revenues in our accompanying consolidated statements of operations, were $1.8 million, $1.4 million and $1.1 million for 2013, 2012 and 2011, respectively.

Recently Adopted Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, "Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar *Tax Loss, or a Tax Credit Carryforward Exists"* ("ASU 2013-11"). The issuance of ASU 2013-11 generally requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward ("NOLC"), a similar tax loss, or a tax credit carryforward. To the extent a NOLC, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The effective date of ASU 2013-11 is for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the adoption of ASU 2013-11 to have a material impact on our consolidated financial statements.

4. Business Combinations

We completed two acquisitions in the fourth quarter of 2013 that were non-significant, individually and in the aggregate, including Employtouch, Inc., (the "Employtouch Acquisition") a Canadian-based corporation and Accel HR, LLC, (the “Accel HR Acquisition”) a Delaware limited liability company located in Georgia.

Acquisition of Employtouch, Inc.

On October 1, 2013, we entered into agreements with the shareholders of Employtouch, Inc., a Canadian-based corporation, to acquire 100% of the issued and outstanding shares of Employtouch, Inc., in exchange for a combination of cash and restricted shares of Ultimate's Common Stock. Employtouch Inc. is engaged in the business of developing workforce management hardware and software products. Employtouch Inc. was consolidated into The Ultimate Software Group of Canada, Inc. The results of operations from this acquisition have been included in our consolidated financial statements as of the date of acquisition. We are marketing and selling the workforce management solution as UltiPro Touchbase to both customers in Canada and the United States.

In October 2013, we introduced UltiPro TouchBase in connection with the Employtouch Acquisition (discussed above), which provides our customers an interactive mobile time clock device that collects time punches, as well as highlights the information most critical to employees and managers via an engaging activity stream. With UltiPro TouchBase, our customers can capture employee time on a touchscreen tablet device, collecting employee-validated data for cost accounting and payroll; can leverage photos for accurate capture of employee time-entry, avoiding 'buddy punches'; and can validate transactions using PIN entry, HID, RFID, magnetic swipe or barcode.

We paid a total of $10.4 million (USD) in cash and a total of 17,788 restricted shares of Ultimate's Common Stock valued at $2.6 million, which are issuable in three (3) equal installments on April 1, 2014, April 1, 2015 and April 1, 2016 (the "Employtouch Stock Consideration").

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

	At October 1, 2013	
Net tangible assets	$	64
Intangible assets		5,350
Goodwill		9,045
Deferred tax liability		(1,418)
Total purchase price	$	13,041

We recorded the Employtouch Acquisition using the acquisition method of accounting and recognized assets and liabilities assumed at their fair value as of the date of acquisition. The $5.4 million of amortizable intangible assets consists of $0.1 million in customer relationships, $5.2 million in developed technology and $0.05 million for a covenant not-to-compete. The fair value of the customer relationships and the developed technology has been estimated using the excess earnings method, a form of the income approach, and cash flow projections. The covenant not-to-compete has been estimated using a damages calculation, which is a form of the income approach.

The balance of the acquired intangibles, net of amortization, is stated separately on our consolidated balance sheet. We acquired net tangible assets of $0.1 million and incurred direct costs of $0.3 million in relation to the acquisition. A deferred tax liability of $1.4 million resulted from the Employtouch Acquisition, which was a nontaxable transaction. In accordance with GAAP, direct costs related to the acquisition were expensed as incurred. The balance of $9.0 million was recorded as goodwill. Since the Employtouch Acquisition was a stock purchase, goodwill and acquired intangibles are not deductible for tax purposes. For further discussion of acquired intangibles, see Note 12 of "Notes to Consolidated Financial Statements". For further discussion of the overall acquisition, please see "Management's Discussion and Analysis - Overview".

Acquisition of Accel HR, LLC

On November 15, 2013 (the "Accel HR Closing Date"), pursuant to an asset purchase agreement with Accel HR, LLC, a Delaware limited liability company located in Georgia, and certain members of Accel HR (the "Accel HR Agreement") we acquired certain assets and liabilities in exchange for a combination of cash and restricted shares of Ultimate's Common Stock.

The business we acquired is now known as UltiPro Managed Services ("UMS"). The results of operations from this acquisition have been included in our consolidated financial statements since that date. We are marketing and selling the comprehensive outsourcing solutions, services and support to both customers in Canada and the United States.

Accel HR provides comprehensive outsourcing solutions, services and support for middle to large market organizations ranging from approximately 500 to over 25,000 employees.

To further simplify the work lives of our customers' human resources and payroll people, we introduced UltiPro Managed Services in November 2013 as a result of the Accel HR Acquisition (discussed above). UltiPro Managed Services is designed for those customers who want to outsource some components of their HR, payroll, benefits, and HCM technology management functions without sacrificing the control of, or access to, their employee data that they enjoy with our cloud solution. Unlike other outsourced payroll or HRIS services that typically take a one-size-fits-all approach, UltiPro Managed Services allows customers to select from a number of payroll management, HRIS, and/or benefits management services and combine them into a tailored solution that best suits their unique needs. Accel HR has provided these types of services to large and mid-market corporate customers in North America since 2004 and, since 2007, Accel HR partnered exclusively with Ultimate to provide these services to their UltiPro customers.

Pursuant to the terms of the Accel HR Agreement, we paid a total of $14.6 million in cash and a total of 22,017 restricted shares of Ultimate's Common Stock, valued at $3.5 million, which are issuable in three (3) equal installments on the first, second and third anniversaries of the Accel HR Closing Date (the "Accel HR Stock Consideration").

The following table summarized the fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands)"

	At November 15, 2013
Net tangible liabilities	$ (507)
Intangible assets	3,350
Goodwill	15,268
Total purchase price	$ 18,111

We recorded the Accel HR Acquisition using the acquisition method of accounting and recognized assets and liabilities assumed at their fair value as of the date of acquisition. The $3.4 million of amortizable intangible assets consists of $3.1 million in customer relationships and $0.3 million in the covenants not-to-compete. The fair value of the customer relationships has been estimated using the excess earnings method, a form of the income approach, and cash flow projections. Covenants not-to-compete have been estimated using a damages calculation, which is a form of the income approach.

The balance of the acquired intangibles, net of amortization, is stated separately on our consolidated balance sheet. We assumed net liabilities of $0.5 million and incurred direct costs of $0.3 million in relation to the acquisition. In accordance with GAAP, direct costs related to the acquisition were expensed as incurred. The balance of $15.3 million was recorded as goodwill. For further discussion of acquired intangibles, see Note 12 of "Notes to Consolidated Financial Statements". For further discussion of the overall acquisition, please see "Management's Discussion and Analysis - Overview".

The restricted stock issuable pursuant to both the Employtouch Stock Consideration and the Accel HR Stock Consideration is subject to the passage of time and such shares will be unregistered when issued which places certain restrictions on when the shares can be freely traded on the open market. No other restrictions apply to the Common Stock issuable for both acquisitions. The fair value of the restricted stock issuable pursuant to the Employtouch Stock Consideration and the Accel HR Stock Consideration was recorded as of the respective acquisition dates since there are no contingencies related to the future stock issuances.

5. Investments in Marketable Securities and Fair Value of Financial Instruments

We classify our investments in marketable securities with readily determinable fair values as available-for-sale. Available-for-sale securities consist of debt and equity securities not classified as trading securities or as securities to be held to maturity. Unrealized gains and losses, net of tax, on available-for-sale securities are reported as a net amount in accumulated other comprehensive income in stockholders' equity until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. Included in accumulated other comprehensive income was $4 thousand and $1 thousand of net unrealized gains, net of tax, on available-for-sale securities at December 31, 2013 and December 31, 2012, respectively. Realized gains and losses resulting on available-for-sale securities are included in other (expense) income, net, in the consolidated statements of income. There were no significant reclassifications of realized gains and losses on available-for-sale securities to the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011.

The amortized cost, net unrealized gain (loss) and fair value of our investments in marketable available-for-sale securities as of December 31, 2013 and December 31, 2012 are shown below (in thousands):

	As of December 31, 2013			As of December 31, 2012		
	Amortized Cost	Net Unrealized Gain	Fair Value	Amortized Cost	Net Unrealized Gain (Loss)	Fair Value
Corporate debentures – bonds	$ 7,375	$ 4	$ 7,379	$ 5,373	$ 1	$ 5,374
Commercial paper	1,799	—	1,799	2,448	—	2,448
U.S. Agency bonds	760	—	760	1,000	—	1,000
U.S. Treasury bills	—	—	—	1,201	—	1,201
Certificates of deposit	515	—	515	511	—	511
Total investments	$ 10,449	$ 4	$ 10,453	$ 10,533	$ 1	$ 10,534

The amortized cost and fair value of the marketable available-for-sale securities by contractual maturity at December 31, 2013 is shown below (in thousands):

	As of December 31, 2013	
	Amortized Cost	Fair Value
Due in one year or less	$ 8,679	$ 8,682
Due after one year	1,770	1,771
Total	$ 10,449	$ 10,453

We classify and disclose fair value measurements in one of the following three categories of fair value hierarchy:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities.

Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Our assets that are measured by management at fair value on a recurring basis are generally classified within Level 1 or Level 2 of the fair value hierarchy. The types of instruments valued based on quoted market prices in active markets include most money market securities and certificates of deposit. Such instruments are generally classified within Level 1 of the fair value hierarchy. We did not have any transfers into and out of Level 1 and Level 2 during the years ended December 31, 2013, 2012 and 2011.

The types of instruments valued by management, based on quoted prices in less active markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency, include corporate debentures and bonds, commercial paper, U.S. agency bonds, and U.S. Treasury bills. Such instruments are generally classified within Level 2 of the fair value hierarchy. We use consensus pricing, which is based on multiple pricing sources, to value our fixed income investments.

The following table sets forth, by level within the fair value hierarchy, financial assets accounted for at fair value as of December 31, 2013 and December 31, 2012 (in thousands):

	As of December 31, 2013				As of December 31, 2012			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un- Observable Inputs (Level 3)	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un- Observable Inputs (Level 3)
Corporate debentures and bonds	$ 7,379	$ —	$ 7,379	$ —	$ 5,374	$ —	$ 5,374	$ —
Commercial paper	1,799	—	1,799	—	2,448	—	2,448	—
U.S. Agency bonds	760	—	760	—	1,000	—	1,000	—
U.S. Treasury bills	—	—	—	—	1,201	—	1,201	—
Certificates of deposit	515	515	—	—	511	511	—	—
Total	$ 10,453	$ 515	$ 9,938	$ —	$ 10,534	$ 511	$ 10,023	$ —

Assets and liabilities measured at fair value on a recurring basis were presented in the consolidated balance sheets as of December 31, 2013 and as of December 31, 2012 as short-term and long-term investments in marketable securities. There were no financial liabilities accounted for at fair value as of December 31, 2013 and December 31, 2012.

6. Allowance for Doubtful Accounts

We have established an allowance for doubtful accounts based on a review of the current status of existing accounts receivable by customer and historical experience.

The activity within allowance for doubtful accounts was as follows (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Balance at beginning of year	$ 475	$ 475	$ 800
Charged to expenses	2,523	1,159	1,586
Write-offs	(2,323)	(1,159)	(1,911)
Balance at end of year	$ 675	$ 475	$ 475

7. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	December 31,	
	2013	2012
Prepaid commissions on cloud sales	$ 19,942	$ 16,558
Other prepaid expenses	2,783	4,468
Other current assets	6,649	4,923
Total prepaid expenses and other current assets	$ 29,374	$ 25,949

8. Property and Equipment, net

Property and equipment, net consists of the following (in thousands):

	As of December 31,	
	2013	2012
Computer equipment	$ 103,154	$ 92,356
Internal-use software (see Note 10)	24,238	5,217
Leasehold improvements	15,069	13,675
Furniture and fixtures	8,318	7,482
Building	1,005	1,005
Land	655	655
Property and equipment	152,439	120,390
Less: accumulated depreciation and amortization	94,253	82,322
Property and equipment, net	$ 58,186	$ 38,068

Depreciation and amortization expense on property and equipment, including depreciation and amortization expense on property and equipment under capital leases, totaled $15.3 million, $12.4 million and $10.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Included in property and equipment, net is computer equipment acquired under capital leases as follows (in thousands):

	As of December 31,	
	2013	2012
Computer equipment	$ 33,006	$ 29,713
Less: accumulated amortization	29,453	25,898
Computer equipment, net	$ 3,553	$ 3,815

Depreciation and amortization expense on property and equipment under capital leases totaled $3.3 million, $4.0 million and $3.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

See Note 10 in the Notes to Consolidated Financial Statements for further discussion of computer software development costs related to internal--use software which is included in property and equipment, net.

9. Foreign Currency

The financial statements of Ultimate's foreign subsidiaries have been translated into U.S. dollars. The functional currency of our wholly-owned subsidiary, The Ultimate Software Group of Canada, Inc., is the Canadian dollar. Assets and liabilities are translated into U.S. dollars at period-end exchange rates. Income and expenses are translated at the average exchange rate for the reporting period. The resulting non-cash foreign currency translation adjustments, representing unrealized gains or losses, are included in consolidated stockholders' equity as a component of accumulated other comprehensive income (loss). Realized gains and losses resulting from foreign exchange transactions are included in total operating expenses in the consolidated statements of operations. Included in accumulated other comprehensive income (loss), as presented in the accompanying consolidated balance sheets, are $1.4 million of unrealized translation losses at December 31, 2013 and $0.1 million of unrealized translation gains at December 31, 2012. There were no significant reclassifications of realized gains and losses resulting from foreign exchange transactions to the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011.

Included in comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011 were realized foreign currency translation losses and unrealized foreign currency translation gains (losses), as follows (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Realized foreign currency translation (losses)	$ —	$ —	$ —
Unrealized foreign currency translation gains (losses)	$ (1,549)	$ 166	$ (181)

10. Computer Software Development Costs

We previously capitalized software costs in accordance with Accounting Standards Codification ("ASC") Topic 985-20, *Costs of Software to Be Sold, Leased, or Marketed.* Those capitalized software costs were full amortized as of December 31, 2013.

Capitalized software and accumulated amortization of capitalized software, developed for external use, were as follows (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Capitalized software	$ 11,342	$ 11,342	$ 11,342
Less: accumulated amortization	11,342	10,834	9,577
Capitalized software, net	$ —	$ 508	$ 1,765

Amortization of capitalized software was $0.5 million, $1.3 million and $1.3 million for 2013, 2012 and 2011, respectively, and is included within cost of recurring revenues in the consolidated statements of income.

Computer software development costs related to software developed for internal use falls under the accounting guidance of ASC Topic 350-40, *Intangibles Goodwill and Other-Internal Use Software*, in which computer software costs are expensed as incurred during the preliminary project stage and capitalization begins in the application development stage once the capitalization criteria are met. Costs associated with post implementation activities are expensed as incurred. Costs capitalized during the application development stage include external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software. In addition to capitalizing costs for software (which are used by Ultimate in its general operations, for internal purposes), we also capitalize costs under ASC Topic 350-40 for certain software development projects related to our suite of products sold to our customers exclusively on a subscription basis under our Cloud Offering. During the years ended December 31, 2013 and 2012, we capitalized $19.0 million and $5.2 million, respectively, of computer software development costs related to a development project to be sold in the future as a cloud product only. There were no such costs capitalized in the year ended December 31, 2011. These capitalized costs are included with property and equipment in the consolidated balance sheets and purchases of property and equipment in the statements of cash flows. Internal-use software is amortized on a straight-line basis over its estimated useful life, generally three to seven years, commencing after the software development is substantially complete and the software is ready for its intended use. At each balance sheet date, we evaluate the useful lives of these assets and test for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. Certain components of the capitalized development project are expected to be ready for their intended use during 2014 with the majority of the development project expected to be complete thereafter. Amortization for the components of the development project that are expected to be complete in 2014 will begin when they are ready for their intended use.

11. Earnings Per Share

Earnings per share calculations require a dual presentation — "basic" and "diluted." Basic earnings per share is computed by dividing income available to common stockholders (the numerator) by the weighted average number of common shares (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

The following is a reconciliation of the shares used in the computation of basic and diluted net income (loss) per share (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Basic weighted average shares outstanding	27,773	26,778	25,814
Effect of dilutive equity instruments (1)	1,240	1,597	1,992
Dilutive shares outstanding	29,013	28,375	27,806
Anti-dilutive equity instruments (1)	47	67	33

(1) Includes options to purchase shares of Common Stock and other stock-based awards outstanding.

12. 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 upon fair value at the date of acquisition and amortized over their estimated useful lives.

On October 1, 2013, we completed the acquisition of Employtouch, Inc., which is engaged in the business of developing workforce management hardware and software products. On November 15, 2013, we completed the acquisition of the business of Accel HR, LLC which provides comprehensive outsourcing solutions, services and support for middle to large market organizations ranging from approximately 500 to over 25,000 employees. Upon the closing of both acquisitions, Ultimate acquired certain amortizable intangibles for developed technology, customer relationships and non-compete arrangements. See Note 4 to the Notes to Consolidated Financial Statements for further discussion regarding the acquired intangibles.

The changes in the carrying value of goodwill were as follows:

	For the Year Ended December 31, 2013	
Goodwill, December 31, 2012	$	3,025
Addition - Employtouch Acquisition (See Note 4)		9,045
Translation adjustment - Employtouch Acquisition	$	(396)
Addition - Accel HR Acquisition (See Note 4)		15,268
Goodwill, December 31, 2013	$	26,942

As of December 31, 2013, the Company's amortizable intangible assets, before amortization expense, have estimated useful lives as follows (in thousands):

			Weighted Average Useful Life
Acquired intangible assets:			
Developed technology	$	5,200	7 years
Customer relationships	$	3,200	10 years
Non-compete agreements	$	300	3 years
Sub-total	$	8,700	8 years
Translation adjustment - Employtouch Acquisition	$	(184)	
Total	$	8,516	
Amortization of acquired intangibles	$	(242)	
Acquired intangible assets, net	$	8,274	

Acquired intangible assets are amortized over their estimated useful life, generally three to ten years, in a manner that reflects the pattern in which the economic benefits are consumed. Amortization expense for acquired intangible assets was $242 thousand for the year ended December 31, 2013. There was no amortization expense for acquired intangible assets for the year ended December 31, 2012. Amortization expense for acquired intangible assets was $83 thousand for the year ended December 31, 2011. Future amortization expense for acquired intangible assets is as follows, as of December 31, 2013 (in thousands):

Year		Amount
2014	$	1,158
2015		1,158
2016		1,135
2017		1,026
2018		1,026
Thereafter		2,771
Total	$	8,274

13. Capital Lease Obligations

We lease certain equipment under non-cancelable agreements, which are accounted for as capital leases and expire at various dates through 2016. Interest rates on these leases are 4.25% . The scheduled lease payments of the capital lease obligations are as follows as of December 31, 2013 (in thousands):

Year		Amount
2014	$	3,108
2015		1,777
2016		527
		5,412
Less amount representing interest		(223)
Lease obligations reflected as current ($2,949) and non-current ($2,240)	$	5,189

14. Other Borrowings

During the year ended December 31, 2012, we purchased perpetual licenses with third-party vendors totaling $5.3 million, payable over a three-year period. The remaining scheduled repayments of the other borrowings, which excludes interest, as of December 31, 2013 are as follows (in thousands):

Year		Amount
2014	$	2,264
2015		593
Other borrowings reflected as current ($2,264) and non-current ($593)	$	2,857

15. Income Taxes

For the year ended December 31, 2013, the income tax provision of $17.6 million was based on book income from operations before income taxes of $43.1 million. For the year ended December 31, 2012, the income tax provision of $14.1 million was based on book income from operations before income taxes of $28.7 million. For the year ended December 31, 2011, the income tax provision of $11.8 million was based on a book loss from operations before income taxes of $16.1 million. Deferred tax assets and liabilities are determined based on the difference between financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The income tax (provision) benefit consists of the following (in thousands):

	For the Year Ended December 31,		
	2013	2012	2011
Current taxes:			
Federal	$ (14,091)	$ (10,085)	$ (7,339)
State and local	(3,298)	(2,354)	(1,602)
Foreign	(201)	(164)	(139)
Deferred taxes, net			
Federal	(8)	(1,710)	(2,541)
State and local	(2)	197	(237)
Foreign	41	9	18
Income tax provision	$ (17,559)	$ (14,107)	$ (11,840)

The income tax provision is different from that which would be obtained by applying the statutory federal income tax rate of 35% to income from continuing operations before income taxes as a result of the following (in thousands):

	For the Year Ended December 31,		
	2013	2012	2011
Income tax (provision) benefit at statutory federal tax rate	$ (15,081)	$ (10,060)	$ (5,642)
State and local income taxes, net of the federal benefit	(2,144)	(1,402)	(1,195)
Non-deductible expenses	(1,965)	(2,470)	(4,920)
Change in tax rates	51	45	28
Recognition of previously unrecognized tax benefits, federal benefit	1,679	—	—
Other, net	(99)	(220)	(111)
Income tax provision	$ (17,559)	$ (14,107)	$ (11,840)

Deferred tax assets and liabilities reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities at December 31, 2013, 2012 and 2011 were as follows (in thousands):

	As of December 31,		
	2013	2012	2011
Deferred tax assets:			
Net operating losses, foreign	$ 59	$ —	$ —
Tax credit carryforwards	127	127	127
Deferred revenue	504	1,140	2,501
Accruals not currently deductible	472	386	356
Allowance for doubtful accounts	248	169	166
Charitable contributions	995	751	524
Stock-based compensation	29,840	24,044	22,217
Deferred rent adjustment	1,349	1,350	1,322
Gross deferred tax assets	33,594	27,967	27,213
Less valuation allowance	—	—	—
Deferred tax assets	$ 33,594	$ 27,967	$ 27,213
Deferred tax liabilities:			
Property and equipment	$ (14,481)	$ (8,665)	$ (5,890)
Acquired intangible assets, foreign	(1,371)	—	—
Software development costs	815	613	111
Other, net	—	—	(15)
Gross deferred tax liabilities	(15,037)	(8,052)	(5,794)
Net deferred tax assets	$ 18,557	$ 19,915	$ 21,419

Ultimate considers all available evidence, both positive and negative, including historical levels of pre-tax book income, expiration of net operating loss carryforwards, expectations and risks associated with estimates of future taxable income, ongoing prudent and feasible tax planning strategies and reversal of deferred tax liabilities in assessing the need for the valuation allowance. If it is not more likely than not that we will recover our deferred tax assets, we will increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable.

The available positive evidence at December 31, 2013 included, among other factors, three years of cumulative historical pre-tax book income and a projection of future pre-tax book income and taxable income. As a result of our analysis of all available evidence, both positive and negative, we believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize all of the deferred tax assets as of December 31, 2013. Approximately $1.4 million of deferred tax liabilities were recorded against the identified intangible assets established upon the acquisition of EmployTouch.

There was no valuation allowance for the years ended December 31, 2013, 2012 and 2011.

Management continues to apply the exception to the comprehensive recognition of deferred income taxes to the undistributed earnings of our foreign subsidiary, Ultimate Canada. The comprehensive recognition of deferred income taxes presumes that all undistributed earnings will be transferred to the parent entity. This presumption may be overcome by the parent entity, and no income taxes would be accrued, if sufficient evidence shows that the subsidiary has invested or will invest the undistributed earnings indefinitely or that the earnings will be remitted in a tax-free liquidation. A parent entity shall have evidence of specific plans for reinvestment of undistributed earnings of a subsidiary which demonstrates that remittance of the earnings will be postponed indefinitely. These criteria required to overcome the presumption are sometimes referred to as the indefinite reversal criteria. Accordingly, deferred income taxes were not recognized on the undistributed earnings of Ultimate Canada. The deferred tax liability, net of available foreign tax credits, resulting from the cumulative undistributed earnings are not deemed material.

At December 31, 2013, we had approximately $154.9 million of net operating loss carryforwards for Federal income tax reporting purposes available to offset future taxable income. The $154.9 million was attributable to deductions from the exercise of non-qualified employee, and non-employee director, stock options and the vesting of restricted stock units and restricted stock awards, the tax benefit of which will primarily be credited to paid-in-capital and deferred tax asset when realized. As a result, the tax benefits associated with stock based compensation are included in net operating loss carryforwards but not reflected in deferred tax assets. During 2013, we realized a tax benefit of $25.5 million comprised of an $19.2 million and a $6.3 million credit to paid-in-capital and deferred tax asset, respectively. As of December 31, 2013, we had approximately $0.2 million of net operating loss carryforwards for foreign income tax reporting purposes available to offset future taxable income. The carryforwards expire from 2018 through 2033 and from 2014 through 2033, for Federal and state income tax reporting purposes, respectively. Utilization of such net operating loss carryforwards may be limited as a result of cumulative ownership changes in Ultimate's equity instruments due to ownership change provisions of Internal Revenue Code Section 382 and similar state provisions. The Internal Revenue Service examination of our U.S. Federal income tax return for the year ended December 31, 2010 was completed with no change to the taxable income or income tax liability as reported.

ASC 740, "Income Taxes," ("ASC 740") requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The completion of our Internal Revenue Service examination of our U.S. Federal income tax return for the year ended December 31, 2010, resulted in the recognition of previously unrecognized tax benefits of approximately $1.9 million, which decreased our provision for income taxes and our effective tax rate. As of December 31, 2013, we had no gross unrecognized tax benefits. While it is often difficult to predict the final outcome of any particular uncertain tax position, management does not believe that it is reasonably possible that the estimates of unrecognized tax benefits will change significantly in the next twelve months.

Tax years 1998 to 2013 remain subject to future examination by the tax jurisdictions in which we are subject to tax.

We recognize interest and penalties accrued related to unrecognized tax benefits as components of our income tax provision. Due to our net operating loss carryover position, we did not have any interest and penalties accrued upon the adoption of ASC 740, and, as of December 31, 2013 and 2012, we did not have any interest and penalties accrued related to unrecognized tax benefits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2013, 2012 and 2011 is as follows (in thousands):

	As of December 31,		
	2013	2012	2011
Balance at January 1,	$ 1,866	$ 1,866	$ 1,866
Tax positions taken in prior period			
Gross increases	—	—	—
Gross decreases	—	—	—
Tax positions taken in current period			
Gross increases	—	—	—
Settlements	(1,866)	—	—
Statute expiration	—	—	—
Balance at December 31,	$ —	$ 1,866	$ 1,866

16. Stock-Based Compensation and Equity

Summary of Plans

Our Amended and Restated 2005 Equity and Incentive Plan (the “Plan”) authorizes the grant of options (“Options”) to non-employee directors, officers and employees of Ultimate to purchase shares of Ultimate's Common Stock ("Common Stock"). The Plan also authorizes the grant to such persons of restricted and non-restricted shares of Common Stock, stock appreciation rights, stock units and cash performance awards (collectively, together with the Options, the “Awards”).

As of December 31, 2013, the aggregate number of shares of Common Stock that were available to be issued under all Awards granted under the Plan was 1,468,486 shares.

Stock-Based Compensation

The following table sets forth the stock-based compensation expense resulting from stock-based arrangements that is recorded in our consolidated statements of income for the periods indicated (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Cost of recurring revenues	$ 3,866	$ 2,508	$ 1,402
Cost of services revenues	3,591	2,729	1,464
Sales and marketing	13,625	7,861	6,820
Research and development	3,585	2,451	1,625
General and administrative	8,140	4,863	3,694
Total stock-based compensation expense	$ 32,807	$ 20,412	$ 15,005

Included in computer equipment in property and equipment, net in our consolidated balance sheet and excluded from purchases of property and equipment in the statements of cash flow at December 31, 2013 and December 31, 2012 was $ 1.4 million and $0.4 million, respectively, in non-cash stock-based compensation expense related to capitalized software which was developed for internal use during the fiscal years then ended. These amounts would have otherwise been charged to research and development expense for the years ended December 31, 2013 and December 31, 2012. There were no such costs capitalized in the year ended December 31, 2011.

Net cash proceeds from the exercise of Options were $8.1 million, $11.3 million and $13.3 million for the years ended December 31, 2013, 2012, and 2011, respectively. There was an $19.2 million, a $12.3 million and a $8.5 million income tax benefit recognized in additional paid in capital from the realization of excess stock-based payment deductions during the years ended December 31, 2013, 2012 and 2011, respectively.

Fair Value

There were no Options granted during the years ended December 31, 2013, 2012 and 2011. The fair value of restricted stock awards and restricted stock units is equal to the closing price of our Common Stock on NASDAQ on the date of grant.

We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The weighted-average forfeiture rates for the years ended December 31, 2013, 2012 and 2011 were based on historical data.

Options

Options granted to officers and employees under the Plan generally have a 10-year term, vesting 25% immediately and 25% on each of the first three anniversaries of the grant date. Options granted to non-employee directors under the Plan generally have a 10-year term and vest and become exercisable immediately on the grant date. All options granted under the Plan and the Prior Plan are fully vested as of December 31, 2013.

Restricted Stock Awards

Under the provisions of the Plan, Ultimate may, at the discretion of the Compensation Committee or the Board, grant restricted stock awards ("Restricted Stock Awards") to officers, employees and non-employee directors. The shares of Common Stock issued under Restricted Stock Awards are subject to certain vesting requirements and restrictions on transfer. During the years ended December 31, 2013, 2012 and 2011, we granted Restricted Stock Awards for 191,500, 396,700 and 193,625 shares, respectively, of Common Stock to officers and employees and we granted Restricted Stock Awards for 18,198, 21,789 and 23,289 shares, respectively, of Common Stock to non-employee directors. Compensation expense for Restricted Stock Awards is measured based on the closing market price of our Common Stock at the date of grant and is recognized on a straight-line basis over the vesting period. Holders of Restricted Stock Awards have all rights of a stockholder including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto during the vesting period. Each Restricted Stock Award becomes vested on the fourth anniversary of the respective date of grant, subject to the grantee's continued employment with Ultimate or any of its subsidiaries on each such vesting date and subject further to accelerated vesting in the event of a change in control of Ultimate, death or disability, the termination of employment by Ultimate without cause or, in the case of a non-employee director, at cessation of his board services at the end of his term. Included in our consolidated statements of income for the years ended December 31, 2013, 2012, and 2011 was $16.1 million, $9.2 million and $8.4 million, respectively, of non-cash stock-based compensation expense for Restricted Stock Awards.

Restricted Stock Unit Awards

Ultimate may, at the discretion of the Compensation Committee, make Awards of stock units or restricted stock units under the Plan ("Restricted Stock Unit Awards") to certain officers and employees. A Restricted Stock Unit Award is a grant of a number of hypothetical share units with respect to shares of Common Stock that are subject to vesting and transfer restrictions and conditions under a restricted stock unit award agreement. The value of each unit is equal to the fair value of one share of Common Stock on any applicable date of determination. The payment with respect to each unit under a Restricted Stock Unit Award may be made, at the discretion of the Compensation Committee, (i) in a number of shares of our Common Stock equal to the number of Restricted Stock Units becoming vested, (ii) in cash, in an amount equal to the fair market value of a share of our Common Stock on the vesting date multiplied by the number of restricted stock units becoming vested on such date or (iii) in a combination of both. The grantee of a Restricted Stock Unit Award does not have any rights as a stockholder with respect to the shares subject to a Restricted Stock Unit Award until such time as shares of Common Stock are delivered to the grantee pursuant to the terms of the related stock unit award agreement.

Restricted Stock Unit Awards vest in three equal annual installments of 33-1/3% of the number of Restricted Stock Unit Awards on each of the first three anniversaries of the date of grant thereof, subject to the participant's continued employment with Ultimate or any of its subsidiaries on each such vesting date, and shall be payable as described above, provided, however, that if any such anniversary is not a date on which our Common Stock is traded on NASDAQ, then the vesting date shall be the last such trading day immediately preceding such anniversary; and provided further, however, that if the Chief Financial Officer ("CFO") of Ultimate should determine that any such anniversary falls within a period during which the participant is prohibited from trading Ultimate's Common Stock under our stock trading policy, the CFO shall so advise the participant in writing and the vesting date shall be the date as of which the CFO has determined that such period has ended.

There were 249,210, 313,442 and 242,062 Restricted Stock Unit Awards granted to employees during the years ended December 31, 2013, 2012 and 2011, respectively. Non-cash stock-based compensation expense for Restricted Stock Unit Awards is measured based on the fair market value of our Common Stock on the date of grant and recognized on a straight-line basis over the vesting period. Included in Ultimate's consolidated statements of operations for the years ended December 31, 2013, 2012 and 2011 was $16.7 million, $11.2 million and $5.9 million, respectively, of non-cash stock-based compensation expense for Restricted Stock Unit Awards.

Option, Restricted Stock and Restricted Stock Unit Activity

The following table summarizes Option activity for the years ended December 31, 2011, 2012 and 2013, as follows (in thousands, except per share amounts):

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	3,015	$ 19.40		
Granted				
Exercised	(776)	17.11		
Forfeited or expired	(16)	19.58		
Outstanding and exercisable at December 31, 2011	2,223	$ 20.20	4.3	$ 99,850
Outstanding at December 31, 2011	2,223	$ 20.20		
Granted	—	—		
Exercised	(750)	15.04		
Forfeited or expired	—	—		
Outstanding and exercisable at December 31, 2012	1,473	$ 22.83	3.8	$ 105,447
Outstanding at December 31, 2012	1,473	$ 22.83		
Granted	—	—		
Exercised	(440)	18.48		
Forfeited or expired	(1)	23.21		
Outstanding and exercisable at December 31, 2013	1,032	$ 24.69	3.1	$ 132,615

The aggregate intrinsic value of Options in the table above represents total pretax intrinsic value (i.e., the difference between the closing price of our Common Stock on the last trading day of the reporting period and the exercise price, times the number of shares) that would have been received by the Option holders had all Option holders exercised their Options on December 31, 2013. The amount of the aggregate intrinsic value changes, based on the fair value of our Common Stock. Total intrinsic value of Options exercised during the years ended December 31, 2013, 2012 and 2011 was $42.6 million, $51.7 million and $31.2 million, respectively. All previously granted Options were fully vested as of December 31, 2011 and therefore, there were no Options vested during the years ended December 31, 2013 or 2012. Total fair value of Options vested during the year ended December 31, 2011 was $2.3 million.

The following table summarizes Restricted Stock and Restricted Stock Unit Award activity for the years ended December 31, 2011, 2012 and 2013, as follows (in thousands, except per share amounts):

	Restricted Stock		
	Shares	Weighted Average Grant Date Fair Value	Restricted Stock Units Shares
Outstanding at December 31, 2010	1,307	$ 26.64	336
Granted	217	62.62	242
Vested	—	—	—
Released	(479)	32.89	(126)
Forfeited or expired	—	—	(23)
Outstanding at December 31, 2011	1,045	$ 31.25	430
Granted	418	93.81	313
Vested	—	—	—
Released	(457)	15.22	(213)
Forfeited or expired	(8)	31.84	(22)
Outstanding at December 31, 2012	998	$ 64.81	508
Granted	210	152.03	249
Vested	—	—	—
Released	(209)	27.76	(229)
Forfeited or expired	(31)	77.92	(27)
Outstanding at December 31, 2013	968	$ 91.28	501

As of December 31, 2013, $63.5 million of total unrecognized compensation cost related to non-vested Restricted Stock Awards is expected to be recognized over a weighted average period of 2.5 years. As of December 31, 2013, $29.2 million of total unrecognized compensation costs related to non-vested Restricted Stock Unit Awards is expected to be recognized over a weighted average period of 1.6 years.

The following table summarizes information with respect to Options outstanding and Options exercisable under the Plan at December 31, 2013:

Range of Exercise Prices	Options Outstanding: Number	Options Outstanding: Weighted Average Remaining Contractual Term (Years)	Options Outstanding: Weighted- Average Exercise Price	Options Exercisable: Number	Options Exercisable: Weighted Average Exercise Price
$2.67—$14.72	122,225	1.99	$ 12.71	122,225	$ 12.71
$15.90—$18.69	124,109	1.70	16.96	124,109	16.96
$21.60—$24.20	117,998	2.35	22.50	117,998	22.50
$24.30—$24.30	160,573	3.04	24.30	160,573	24.30
$26.72—$27.02	21,824	3.07	26.91	21,824	26.91
$28.41—$28.41	243,495	4.00	28.41	243,495	28.41
$30.34—$30.34	70,380	3.46	30.34	70,380	30.34
$32.39—$32.39	91,785	4.45	32.39	91,785	32.39
$32.54—$32.54	54,492	4.32	32.54	54,492	32.54
$34.89—$34.89	24,867	3.81	34.89	24,867	34.89
$2.67—$34.89	1,031,748	3.14	$ 24.69	1,031,748	$ 24.69

Board Compensation

Each non-employee director of Ultimate receives compensation for serving on the Board, payable exclusively in the form of Restricted Stock Awards granted under the Plan.

On October 25, 2010, the Board amended the previously approved arrangement pursuant to which the non-employee directors and Chairmen of the Audit and Compensation Committees of the Board, respectively, were granted Awards for each regular Board and Committee meeting attended. Under the arrangement, as amended, (i) each non-employee director was granted a restricted stock award of 750 shares of Common Stock for each regular meeting of the Board attended during the first three quarters of 2013 and for the years ended December 31, 2012 and 2011 and (ii) each of the Chairmen of the Audit Committee and Compensation Committee was granted a restricted stock award of 468 shares of Common Stock for attendance at each regular meeting of the Committee during the first three quarters of 2013 and for the years ended December 31, 2012 and 2011 that he chaired.

On October 28, 2013, the Board amended the previously approved arrangement pursuant to which the non-employee directors and Chairmen of the Audit and Compensation Committees of the Board, respectively, were granted Awards for each regular Board and Committee meeting attended. Under the arrangement, as amended, (i) each non-employee director was granted a restricted stock award of 400 shares of Common Stock for each regular meeting of the Board attended during the fourth quarter of 2013 and (ii) each of the Chairmen of the Audit Committee and Compensation Committee was granted a restricted stock award of 50 shares of Common Stock for attendance at each regular meeting of the Committee during the fourth quarter of 2013 that he chaired.

In addition, in 2013, 2012 and 2011 each non-employee director was granted, for each fiscal quarter during which he served, a restricted stock award of that number of shares of Common Stock equal to the quotient of $12,500 divided by the closing price of the Common Stock on NASDAQ on the date of grant, which is the effective date of the grant determined by the Board for each such quarter, rounded down to the closest full number of shares. Under the arrangement as amended, the date of grant shall not be a date prior to the date of the Board's determination of the same and such restricted stock awards shall vest on the fourth anniversary of the date of grant, subject to accelerated vesting in the event of a director's death, disability, cessation of service or the end of his term or the occurrence of a change of control of Ultimate.

The following table summarizes information about Restricted Stock Awards granted by us to non-employee directors in exchange for director related services rendered for 2013, 2012 and 2011:

Year	Market Value of Restricted Stock Awards Granted	Number of Restricted Stock Awards Granted
2011	$ 53.33	5,856
	53.57	5,851
	50.75	5,916
	63.57	5,666
2012	$ 69.00	5,591
	76.42	5,501
	93.84	5,351
	94.50	5,346
2013	$ 95.99	5,336
	109.95	5,251
	146.25	5,111
	155.32	2,500

The non-cash compensation expense, recognized in the consolidated statements of income related to the Restricted Stock Awards granted to non-employee directors, including the chairmen of the Audit and Compensation Committees, determined pursuant to the application of ASC 718 for the years ended December 31, 2013, 2012 and 2011, was $1,449,000, $1,058,000 and $706,000, respectively, and is included in general and administrative expenses in the consolidated statements of income.

Common Stock

The holders of Common Stock are entitled to one vote per share for each share held of record on all matters submitted to a vote of the stockholders.

17. Commitments and Contingencies

Operating Leases

We lease corporate office space and certain equipment under non-cancelable operating lease agreements expiring at various dates. Total rent expense under these agreements was $6.6 million, $5.7 million and $5.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. Future minimum annual rental commitments related to these leases are as follows as of December 31, 2013 (in thousands):

Year	Amount
2014	$ 6,997
2015	6,228
2016	5,161
2017	3,488
2018	1,937
Thereafter	724
	$ 24,535

Software License Agreements

We have a software license and OEM (original equipment manufacturer) agreement with a third-party vendor for the purposes of development and testing, support of end users and use with the customer application expiring on December 31, 2016. Future commitments related to this agreement are as follows as of December 31, 2013 (in thousands):

Year		Amount
2014	$	1,000
2015		1,155
2016		1,155
	$	3,310

Litigation

From time-to-time, Ultimate is involved in litigation relating to claims arising out of its operations in the normal course of business. We are not currently a party to any legal proceeding the adverse outcome of which, individually or in the aggregate, could reasonably be expected to have a material adverse effect on our operating results or financial condition.

18. Related Party Transactions

On October 23, 2006, Ultimate's Board elected Al Leiter as a non-employee member of Ultimate's Board of Directors. During October 2002, Mr. Leiter entered into an agreement with Ultimate pursuant to which he agreed to (i) attend and participate in certain internal meetings of Ultimate; (ii) assist our salespeople with prospects; and (iii) act as an official spokesperson for Ultimate in exchange for which we agreed to make contributions to Leiter's Landing, Mr. Leiter's non-profit charitable organization benefiting children, in the amount of one tenth (1/10) of one percent, or 0.1%, of our total revenues as reported in our consolidated statements of operations. In February 2007, Mr. Leiter and Ultimate agreed that the maximum amount payable by Ultimate in any one year under this agreement is $200,000. In June 2012, Mr. Leiter and Ultimate terminated this agreement. Therefore, there were no contributions to Leiter's Landing for the year ended December 31, 2013. For the fiscal years ended December 31, 2012 and 2011, Ultimate contributed a total of approximately $50,000 and $200,000, respectively, to Leiter's Landing.

19. Employee Benefit Plan

Ultimate provides retirement benefits for eligible employees, as defined, through a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). Contributions to the 401(k) Plan, which are made at the sole discretion of Ultimate, were $3.6 million, $2.9 million and $2.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Ultimate carried out an evaluation, under the supervision and with the participation of Ultimate's management, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of Ultimate's disclosure controls and procedures as of the end of the period covered by this Form 10-K pursuant to Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, Ultimate's management, including the CEO and CFO, concluded that, as of December 31, 2013, Ultimate's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in Ultimate's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Ultimate's disclosure controls and procedures were designed to provide reasonable assurance as to the achievement of these objectives. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events and thus has inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance as to the achievement of their objectives.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of this assessment, our management has concluded that, as of December 31, 2013, our internal control over financial reporting was effective. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Form 10-K, has issued an attestation report on Ultimate's internal control over financial reporting as of December 31, 2013, which is included below on this Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes during the fourth quarter of 2013 in Ultimate's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Ultimate's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Ultimate Software Group, Inc.:

We have audited The Ultimate Software Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Ultimate Software Group, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated February 28, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

February 28, 2014
Jacksonville, Florida
Certified Public Accountants

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The executive officers (Messrs. Scott Scherr, Marc D. Scherr, Mitchell K. Dauerman, Adam Rogers, Greg Swick, Robert Manne and Chris Phenicie), directors and other key employees of Ultimate, and their ages as of February 18, 2014, are as follows:

Name	Age	Position(s)
Scott Scherr	61	Chairman of the Board, President and Chief Executive Officer
Marc D. Scherr	56	Vice Chairman of the Board and Chief Operating Officer
Mitchell K. Dauerman	56	Executive Vice President, Chief Financial Officer and Treasurer
Adam Rogers	39	Senior Vice President, Chief Technology Officer
Greg Swick	50	Senior Vice President, Chief Enterprise Sales Officer
Robert Manne	60	Senior Vice President, General Counsel
Chris Phenicie	42	Senior Vice President, Chief Mid-Market Sales Officer
James A. FitzPatrick, Jr.	64	Director
Alois T. Leiter	48	Director
LeRoy A. Vander Putten	79	Director
Rick A. Wilber	67	Director
Robert A. Yanover	77	Director
Julie Dodd	44	Senior Vice President, Chief Services Officer
Bill Hicks	48	Senior Vice President, Chief Relationship Officer
Jody Kaminsky	39	Senior Vice President, Marketing
Vivian Maza	52	Senior Vice President, Chief People Officer and Secretary

Scott Scherr has served as President and a director of Ultimate since its inception in April 1996 and has been Chairman of the Board and Chief Executive Officer of Ultimate since September 1996. Mr. Scherr is also a member of the Executive Committee of the Board of Directors (the “Board”). In 1990, Mr. Scherr founded The Ultimate Software Group, Ltd. (the “Partnership”), the business and operations of which were assumed by Ultimate in 1998. Mr. Scherr served as President of the Partnership’s general partner from the inception of the Partnership until its dissolution in March 1998. From 1979 until 1990, he held various positions at ADP, a payroll services company, where his titles included Vice President of Operations and Sales Executive. Prior to joining ADP, Mr. Scherr operated Management Statistics, Inc., a data processing service bureau founded by his father, Reuben Scherr, in 1959. He is the brother of Marc Scherr, the Vice Chairman of the Board of Ultimate and the father-in-law of Adam Rogers, Senior Vice President, Chief Technology Officer.

Marc D. Scherr has been a director of Ultimate since its inception in April 1996 and has served as Vice Chairman since July 1998 and as Chief Operating Officer since October 2003. Mr. Scherr is also a member of the Executive Committee of the Board. Mr. Scherr became an executive officer of Ultimate effective March 1, 2000. Mr. Scherr served as a director of Gerschel & Co., Inc., a private investment firm from January 1992 until March 2000. In December 1995, Mr. Scherr co-founded Residential Company of America, Ltd. (“RCA”), a real estate firm, and served as President of its general partner until March 2000. Mr. Scherr also served as Vice President of RCA’s general partner from its inception in August 1993 until December 1995. From 1990 to 1992, Mr. Scherr was a real estate pension fund advisor at Aldrich, Eastman & Waltch. Previously, he was a partner in the Boston law firm of Fine & Ambrogne. Mr. Scherr is the brother of Scott Scherr, Chairman of the Board, President and Chief Executive Officer of Ultimate.

Mitchell K. Dauerman has served as Executive Vice President of Ultimate since April 1998 and as Chief Financial Officer and Treasurer of Ultimate since September 1996. From 1979 to 1996, Mr. Dauerman held various positions with KPMG LLP, an accounting firm, serving as a Partner in the firm from 1988 to 1996. Mr. Dauerman is a Certified Public Accountant.

Adam Rogers has served as Senior Vice President, Chief Technology Officer since February 6, 2007. Mr. Rogers served as Senior Vice President, Development from December 2002 to February 6, 2007. From July 2001 to December 2002, Mr. Rogers served as Vice President of Engineering. From May 1997 to July 2001, Mr. Rogers held various positions in Ultimate’s research and development organization, including Director of Technical Support from October 1998 to November

1999 and Director of Web Development from November 1999 to July 2001. Mr. Rogers is the son-in-law of Scott Scherr, Chairman of the Board, President and Chief Executive Officer of Ultimate.

Greg Swick has served as Senior Vice President since January 2001 and as Chief Enterprise Sales Officer since February 6, 2007. Mr. Swick served as Vice President and General Manager of the PEO Division of Ultimate's sales organization from November 1999 to January 2001. From February 1998 to November 1999, Mr. Swick was Director of Sales, Northeast Division. Prior to joining Ultimate, Mr. Swick was President of The Ultimate Software Group of New York and New England, G.P., a reseller of Ultimate Software which was acquired by Ultimate in March 1998. From 1987 to 1994, Mr. Swick held various positions with ADP, where the most recent position was Area Vice President — ADP Dealer Services Division.

Robert Manne has served as Senior Vice President, General Counsel since February 2004 and served as Vice President, General Counsel from May 1999 through January 2004. Prior to joining Ultimate, Mr. Manne was an attorney and partner of Becker & Poliakoff, P.A., an international law firm, since 1978. In addition to administering the Litigation Department of the law firm, Mr. Manne was a permanent member of the firm's executive committee which was responsible for law firm operations. Mr. Manne has performed legal services for Ultimate since its inception.

Chris Phenicie has served as Senior Vice President and Chief Mid-Market Sales Officer since January 2009 and served as Vice President of Workplace Sales from April 2007 until January 2009. From January 2000 to April 2007, Mr. Phenicie served as Strategic Account Manager for Ultimate. From July 1997 to January 2000, Mr. Phenicie held various sales positions with ADP, the most recent of which position was Sales Manager.

James A. FitzPatrick, Jr. has served as a director of Ultimate since July 2000 and is Chairman of the Nominating Committee of the Board and is a member of the Compensation Committee of the Board since February 2014. Mr. FitzPatrick is, and since June 2012 has been, a partner in the law firm Hogan Lovells US LLP. Mr. FitzPatrick was a partner in the law firm Dewey & LeBoeuf LLP and its predecessor firms from January 1983 until May 2012 and was an associate from September 1974 until January 1983.

Al Leiter has served as director of Ultimate since October 2006 and is a member of the Compensation Committee and the Nominating Committee of the Board. Mr. Leiter was a three-time Major League Baseball World Champion and two-time All-Star pitcher formerly with the New York Yankees, New York Mets, Toronto Blue Jays, and Florida Marlins, and has been an official spokesperson for Ultimate since 2002. Mr. Leiter has served as a television commentator for the Yankees Entertainment and Sports Network since 2006 and as an analyst with MLB Network since January 2009. Mr. Leiter is president and founder of Leiter's Landing, a charitable organization formed in 1996. Mr. Leiter has served on the Executive Committee of New York City's official tourism marketing organization, NYC & Company, since 2000 and is on the Board of Directors of America's Camp, a legacy organization of the Twin Towers Fund, on which he also served as a board member.

LeRoy A. Vander Putten has served as a director of Ultimate since October 1997, is Chairman of the Compensation Committee of the Board and is a member of the Audit Committee of the Board. Mr. Vander Putten served as the Executive Chairman of The Insurance Center, Inc., a holding company for 14 insurance agencies, from October 2001 until January 2006 at which time the company was sold. Previously, he served as the Chairman of CORE Insurance Holdings, Inc., a member of the GE Global Insurance Group, engaged in the underwriting of casualty reinsurance, from August 2000 to August 2001. From April 1998 to August 2000, he served as Chairman of Trade Resources International Holdings, Ltd., a corporation engaged in trade finance for exporters from developing countries. From January 1988 until May 1997, Mr. Vander Putten was Chairman and Chief Executive Officer of Executive Risk Inc., a specialty insurance holding company. From August 1982 to January 1988, Mr. Vander Putten served as Vice President and Deputy Treasurer of The Aetna Life and Casualty Company, an insurance company.

Rick A. Wilber has served as a director of Ultimate since October 2002 and is a member of the Audit Committee, a member of the Compensation Committee, and a member of the Nominating Committee of the Board. Mr. Wilber formerly served on Ultimate's Board of Directors from October 1997 through May 2000. Mr. Wilber served as the President of Lynn's Hallmark Cards, which owns and operates a number of Hallmark Card stores, from 1995 until 2013, at which time Mr. Wilber retired. Mr. Wilber has served as a director of Vanguard Energy Corporation, an oil and gas company since June 2010. Mr. Wilber has served as a director of Synergy Resource Corporation, an oil and gas exploration company, since October 2008. Mr. Wilber was a co-founder of Champs Sports Shops and served as its President from 1974 to 1984. He served on the Board of Royce Laboratories, a pharmaceutical concern, from 1990 until April 1997, when Royce Laboratories was sold to Watson Pharmaceuticals, Inc., a pharmaceutical concern.

Robert A. Yanover has served as a director of Ultimate since January 1997 and is Chairman of the Audit Committee and a member of the Compensation Committee of the Board. Mr. Yanover founded Computer Leasing Corporation of

Michigan, a private leasing company, in 1975 and served as its President from its founding until 2007, at which time Mr. Yanover retired. Mr. Yanover also founded Lason, Inc., a corporation specializing in the imaging business, and served as Chairman of the Board from its inception in 1987 until 1998 and as a director through February 2001.

Each officer serves at the discretion of the Board and holds office until his or her successor is elected and qualified or until his or her earliest resignation or removal. Messrs. LeRoy A. Vander Putten and Robert A. Yanover serve on the Board in the class whose term expires at the Annual Meeting of stockholders (the “Annual Meeting”) in 2014. Messrs. Marc D. Scherr, James A. FitzPatrick, Jr. and Rick A. Wilber serve on the Board in the class whose term expires at the Annual Meeting in 2015. Messrs. Scott Scherr and Al Leiter serve on the Board in the class whose term expires at the Annual Meeting in 2016.

Julie Dodd has served as Senior Vice President and Chief Services Officer since October 2013, responsible for all support and implementation services provided by the Company to its customers. Ms. Dodd served as Senior Vice President and General Manager, Mid-Market Services, from April 2010 until January 2014 and served as Vice President and General Manager of Mid-Market Operations from January 2009 until April 2010. From October 2007 to December 2008, Ms. Dodd served as the Director of Product Strategy, with primary focus on the UltiPro Mid-Market product offering. Prior to joining Ultimate, Ms. Dodd provided consulting services for large scale implementations, operations efficiencies projects and new cloud product launches for various service providers. From 2002 to 2005, Ms. Dodd held various executive positions with Ceridian Corporation, an information technology company, supporting their small and mid-market solutions.

Bill Hicks has served as Senior Vice President and Chief Relationship Officer since October 2013. Mr. Hicks served as Senior Vice President of Shared Services and Chief Information Officer since April 2005. Mr. Hicks served as Vice President and Chief Information Officer from February 2004 through March 2005. From 1993 until February 2004, Mr. Hicks held various positions in the management of technologies for Precision Response Corporation, a wholly-owned subsidiary of Interactive Corporation and a provider of call centers and on-line commerce customer care services, including Chief Information Officer and Senior Vice President of Technology from August 2000 until February 2004.

Jody Kaminsky has served as Senior Vice President of Marketing since April 2010. Ms. Kaminsky served as Vice President of Marketing from July 2008 until April 2010. Ms. Kaminsky served as Vice President of Marketing Operations from July 2005 to June 2008, as Director of Strategic Marketing from December 2002 through June 2005, and in various other Marketing and Communications positions from November 1999 through November 2002. Prior to that, Ms. Kaminsky held various positions with General Electric's GE Information Services division from April 1997 through August 1999, including Manager of Communications and Community Relations.

Vivian Maza has served as Senior Vice President, Chief People Officer and Secretary of Ultimate since February 2004 and served as Vice President, People from January 1998 through January 2004. Ms. Maza has served as Secretary of Ultimate since September 1996. Prior to that, Ms. Maza served as the Office Manager of Ultimate from its organization in April 1996 and of the Partnership from its inception in 1990 until April 1996. Ms. Maza is an HR Generalist and holds a Professional in Human Resources (PHR) certification from the Society for Human Resource Management (SHRM) association. From 1985 to 1990, Ms. Maza was a systems analyst for the Wholesale Division of ADP.

Code of Ethics

Ultimate has adopted a Code of Ethics within the meaning of Item 406 of Regulation S-K of the Exchange Act. Ultimate’s Code of Ethics applies to its principal executive officer, principal financial officer and principal accounting officer. A copy of Ultimate’s Code of Ethics is posted on Ultimate’s website at www.ultimatesoftware.com. In the event that Ultimate makes any amendments to, or grants any waiver from, a provision of the Code of Ethics that requires disclosure under Item 5.05 of Form 8-K, Ultimate will post such information on its website.

Corporate Governance

On February 4, 2013, the Board formed a Nominating Committee. The primary function of the Nominating Committee is to recommend director-nominees to be considered for election or appointment by the Board. Ultimate has established a Nominating Committee Charter that sets forth the Nominating Committee’s principal duties and responsibilities. This charter is available on our website.

When considering potential director candidates, the Board considers, and the Nominating Committee will consider, the candidate’s independence (as mandated by the NASDAQ rules), character, judgment, age, skills, financial literacy, and experience in the context of the needs of Ultimate and the Board. Other information required by this item is incorporated herein by reference to the information set forth in Ultimate’s Proxy Statement for the Annual Meeting in 2014 under the heading "Corporate Governance, Board Meetings and Committees of the Board." In 2013, Ultimate did not pay any fees to a third party to assist in identifying or evaluating potential nominees.

The Nominating Committee and the Board will consider director candidates recommended by Ultimate's stockholders in a similar manner as those recommended by members of management or other directors.

Other Information

The information required by this item is incorporated herein by reference to the information set forth in Ultimate's Proxy Statement for the Annual Meeting in 2014 under the headings "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance, Board Meetings and Committees of the Board-Audit Committee."

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the information in Ultimate's Proxy Statement for the 2014 Annual Meeting under the headings "Executive Compensation Policy," "Director Compensation" and "Compensation Committee Report."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth in this item is incorporated herein by reference to the information in Ultimate's Proxy Statement for the 2014 Annual Meeting under the heading "Security Ownership of Certain Beneficial Owners and Management."

Equity Compensation Plan Information.

The following table summarizes information related to Ultimate's equity compensation plans as of December 31, 2013:

Equity Compensation Plan Information

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	1,031,748	$ 24.69	1,468,486
Equity compensation plans not approved by security holders	—	—	—
Total	1,031,748	$ 24.69	1,468,486

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the information in Ultimate's Proxy Statement for the 2014 Annual Meeting under the headings "Certain Relationships and Related Transactions," "Compensation Committee Interlocks and Insider Participation" and "Corporate Governance, Board Meetings and Committees of the Board."

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the information in Ultimate's Proxy Statement for the 2014 Annual Meeting under the heading "KPMG LLP Fees."

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a) Documents filed as part of this Form 10-K:

1. The following consolidated financial statements of Ultimate, together with the report thereon, of KPMG LLP, our Independent Registered Public Accounting Firm, are included in Part II, Item 8, of this Form 10-K:

Consolidated Balance Sheets as of December 31, 2013 and 2012

3. Exhibits

Number	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.4 to the Registration Statement on Form S-1 (File 333-47881), initially filed March 13, 1998 (the "Registration Statement"))
3.2	Certificate of Designations of Series A Junior Preferred Stock (incorporated by reference to Exhibit 2 to Ultimate's Current Report on Form 8-K dated October 23, 1998)
3.3	Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.2 to Ultimate's Current Report on Form 8-K dated February 6, 2013)
4.1	Form of Certificate for the Common Stock, par value $0.01 per share **
4.2	Form of Warrant for Common Stock (incorporated by reference to Exhibit 4.4 to Ultimate's Registration Statement on Form S-3 (File No. 333-107527), initially filed July 31, 2003)
4.3	Amended and Restated Rights Agreement, dated as of August 26, 2008, between Ultimate and Computershare Trust Company, N.A., as Rights Agent. The Rights Agreement includes the Form of Certificate of Designations of Series A Junior Preferred Stock as Exhibit A, the Form of Rights Certificate as Exhibit B and the Summary of Rights as Exhibit C (incorporated by reference to Exhibit 4.1 to Ultimate's Current Report on Form 8-K dated September 2, 2008).
10.1	Shareholders Rights Agreement, dated June 6, 1997 among Ultimate and certain stockholders named therein **
10.2	Commercial Office Lease by and between ROHO Ultimate, LTD. II, a Florida limited partnership ("Landlord") and Ultimate dated May 23, 2001 (incorporated by reference to Exhibit 10.32 to Ultimate's Annual Report on Form 10-K dated March 15, 2006)
10.3	Weston Town Center South Office Building Lease between South Office Building-DLB, LLC, a Florida Limited Liability Company, South Office Building Bagtrust, LLC, a Florida Limited Liability Company, and South Office Building-BJB, LLC, a Florida Limited Liability Company, and Ultimate and Weston Common Area LTD., dated August 18, 2005 (incorporated by reference to Exhibit 10.35 to Ultimate's Annual Report on Form 10-K, dated March 15, 2006)
10.4	Galleria Atlanta office lease agreement between Galleria 600, LLC, a Delaware limited liability company, and Ultimate, dated April 27, 2006 (incorporated by reference to Exhibit 10.36 to Ultimate's Quarterly Report on Form 10-Q, dated August 8, 2006)
10.5	Lease of Office Space by and between OMERS Realty Corporation CPP Investment Board Real Estate Holdings Inc., and The Ultimate Group of Canada, Inc., dated August 22, 2006 (incorporated by reference to Exhibit 10.37 to Ultimate's Quarterly Report on Form 10-Q, dated November 8, 2006)
10.6	Indemnity Agreement between OMERS Realty Corporation, CPP Investment Board Real Estate Holdings, Inc., and Ultimate dated August 22, 2006 (incorporated by reference to Exhibit 10.38 to Ultimate's Quarterly Report on Form 10-Q, dated November 8, 2006)
10.7	Amendment to Lease by and between ROHO Ultimate, Ltd. I ("Landlord") and Ultimate Group. Inc. ("Tenant") for Demised premises at 2000 Ultimate Way, Weston, FL 33326 (the "Premises") dated February 15, 2000 (incorporated by reference to Exhibit 10.39 to Ultimate's Annual Report on Form 10-K, dated March 16, 2007)
10.8	First Amendment to Lease between Galleria 600, LLC ("Landlord") and Ultimate, dated August 18, 2006 (incorporated by reference to Exhibit 10.42 to Ultimate's Annual Report on Form 10-K, dated March 16, 2007)
10.9	Amended and Restated 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.1 to Ultimate's Current Report on Form 8-K, dated May 18, 2012) ***
10.10	Commercial lease between Weston Office, LLC ("Landlord") and Ultimate, dated January 18, 2008 (incorporated by reference to Exhibit 10.45 to Ultimate's Annual Report on Form 10-K, dated March 13, 2008)
10.11	Commercial lease between AGF Woodfield Owner, L.L.C., ("Landlord") and Ultimate, dated October 31, 2008 (incorporated by reference to Exhibit 10.47 to Ultimate's Annual Report on Form 10-K, dated March 2, 2009)

10.12	Commercial lease between 300 Galleria Parkway Associates, L.P., (“Landlord”) and Ultimate, dated September 8, 2009 (incorporated by reference to Exhibit 10.33 to Ultimate’s Quarterly Report on Form 10-Q, dated November 9, 2009)
10.13	Commercial lease between RT Twenty-Sixth Pension Properties Limited (“Landlord”) and Ultimate, dated September 4, 2009 (incorporated by reference to Exhibit 10.34 to Ultimate’s Quarterly Report on Form 10-Q, dated November 9, 2009)
10.14	Master Space Agreement between Quality Technology Services Miami LLC and Ultimate, dated June 1, 2009 (incorporated by reference to Exhibit 10.1 to Ultimate’s Quarterly Report on Form 10-Q, dated August 9, 2010) ü
10.15	Master Space Agreement between Quality Technology Services Metro LLC and Ultimate, dated June 1, 2009 (incorporated by reference to Exhibit 10.2 to Ultimate’s Quarterly Report on Form 10-Q, dated August 9, 2010) ü
10.16	Service Order Form between Verizon Canada Ltd. and Ultimate, dated September 23, 2009 (incorporated by reference to Exhibit 10.3 to Ultimate’s Quarterly Report on Form 10-Q, dated August 9, 2010) ü
10.17	Amended and Restated Change in Control Bonus Plan for Executive Officers dated April 26, 2010 (incorporated by reference to Exhibit 10.4 to Ultimate’s Quarterly Report on Form 10-Q, dated August 9, 2010) ***
10.18	Commercial lease between 2000 Main Street Associates, LLC (“Landlord”) and Ultimate, dated November 3, 2010 (incorporated by reference to Exhibit 10.54 to Ultimate’s Annual Report on Form 10-K, dated March 1, 2011)
10.19	Commercial lease between Micari Holdings, LLC (“Landlord”) and Ultimate, dated November 5, 2010 (incorporated by reference to Exhibit 10.55 to Ultimate’s Annual Report on Form 10-K, dated March 1, 2011)
10.20	Commercial lease between Galleria 400, LLC (“Landlord”) and Ultimate, dated December 29, 2010 (incorporated by reference to Exhibit 10.56 to Ultimate’s Annual Report on Form 10-K, dated March 1, 2011)
10.21	Commercial lease between AG/LPC Griffin Towers, L.P., (“Landlord”) and Ultimate, dated February 23, 2011 (incorporated by reference to Exhibit 10.1 to Ultimate's Quarterly Report on Form 10-Q, dated May 10, 2011)
10.22	Commercial lease between TCS-CB LLC, ("Landlord") and Ultimate, dated July 25, 2012 (incorporated by reference to Exhibit 10.1 to Ultimate's Quarterly Report on Form 10-Q, dated November 9, 2012)
10.23	License and Master Services Agreement between IO Phoenix One, LLC and Ultimate, dated February 27, 2012, as amended (incorporated by reference to Exhibit 10.2 to Ultimate's Quarterly Report on Form 10-Q, dated November 9, 2012) ü
21.1	Subsidiaries of the Registrant *
23.1	Consent of Independent Registered Public Accounting Firm *
31.1	Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
31.2	Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended *
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended *
101.1	Interactive Data Files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2013 and 2012, (ii) Consolidated Statements of Income for the Years Ended December 31, 2013, 2012 and 2011, (iii) Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011; (iv) Consolidated Statements of Stockholders’ Equity for the Years Ended December 31, 2013, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements.

* Filed herewith.
** Incorporated by reference to the corresponding exhibit in Ultimate’s Registration Statement.
*** Indicates management contract or compensatory plan, contract or arrangement.

ü Confidential treatment has been granted with respect to certain portions of this exhibit pursuant to Rule 24b-2 of the Securities and Exchange Act of 1934, as amended, and such portions have been omitted and filed separately with the SEC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE ULTIMATE SOFTWARE GROUP, INC.

By: /s/ Mitchell K. Dauerman
Mitchell K. Dauerman
Executive Vice President, Chief Financial Officer and Treasurer

Date: February 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Scott Scherr Scott Scherr	President, Chief Executive Officer and Chairman of the Board	February 28, 2014
/s/ Mitchell K. Dauerman Mitchell K. Dauerman	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 28, 2014
/s/ Marc D. Scherr Marc D. Scherr	Vice Chairman of the Board and Chief Operating Officer	February 28, 2014
/s/ James A. FitzPatrick, Jr. James A. FitzPatrick, Jr.	Director	February 28, 2014
/s/ LeRoy A. Vander Putten LeRoy A. Vander Putten	Director	February 28, 2014
/s/ Rick Wilber Rick Wilber	Director	February 28, 2014
/s/ Robert A. Yanover Robert A. Yanover	Director	February 28, 2014
/s/ Alois T. Leiter Alois T. Leiter	Director	February 28, 2014