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

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended March 31, 2019

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

For the transition period from to

Commission file number 001-36348

PAYLOCITY HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

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

1400 American Lane

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

(847) 463-3200

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

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Paylocity Holding Corporation

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For the Quarterly Period Ended March 31, 2019

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

PAYLOCITY HOLDING CORPORATION

Unaudited Consolidated Balance Sheets

(in thousands, except per share data)

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

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

See accompanying notes to unaudited consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Unaudited Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share data)

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

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

See accompanying notes to unaudited consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Unaudited Consolidated Statement of Changes in Stockholders' Equity

(in thousands)

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

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

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

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

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

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

See accompanying notes to the unaudited consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Unaudited Consolidated Statements of Cash Flows

(in thousands)

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

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

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

See accompanying notes to unaudited consolidated financial statements.

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PAYLOCITY HOLDING CORPORATION

Notes to the Unaudited Consolidated Financial Statements

(all amounts in thousands, except per share data)

(1) Organization and Description of Business

Paylocity Holding Corporation (the “Company”) is a cloud-based provider of payroll and human capital management software solutions for medium-sized organizations. Services are provided in a Software-as-a-Service (“SaaS”) delivery model utilizing the Company’s cloud-based platform. Payroll services include collection, remittance and reporting of payroll liabilities to the appropriate federal, state and local authorities.

(2) Summary of Significant Accounting Policies

(a) Consolidation and Use of Estimates

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

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. Accounting estimates used in the preparation of these consolidated financial statements change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes.

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

(b) Interim Unaudited Consolidated Financial Information

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the Company’s financial position, results of operations, changes in stockholders’ equity and cash flows. The results of operations for the three and nine months ended March 31, 2019 are not necessarily indicative of the results for the full year or the results for any future periods. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended June 30, 2018 included in the Company’s Annual Report on Form 10-K filed with the SEC on August 10, 2018.

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(c) Revenue Recognition

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

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

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

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

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

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

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

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

Sales taxes collected from clients and remitted to governmental authorities where applicable are accounted for on a net basis and therefore are excluded from revenues in the statements of operations and comprehensive income.

Interest income collected on funds held for clients is recognized in recurring revenues when earned as the collection, holding and remittance of these funds are components of providing these services.

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

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

Deferred revenue

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

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

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

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

Deferred contract costs

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

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

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

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

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

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

Remaining Performance Obligations

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

(d) Income Taxes

Income taxes are accounted for in accordance with ASC 740, Income Taxes, using the asset and liability method. The Company's provision for income taxes is based on the annual effective rate method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

(e) Recently Adopted Accounting Standards

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

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

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

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

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

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

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

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

	Three Months Ended March 31, 2019		
	As Reported (Topic 606)	Balances under ASC 605	Impact from Adoption
Statement of Operations			
Revenues			
Recurring fees	$ 129,976	$	