ULTIMATE SOFTWARE GROUP INC
Form DEF 14A
April 05, 2017

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934, as Amended

Filed by the Registrant /X/
Filed by a party other than the Registrant /   /

Check the appropriate box:
/   / Preliminary Proxy Statement
/   / Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
/X/ Definitive Proxy Statement
/   / Definitive Additional Materials
/   / Soliciting Material under Rule 14a-12

The Ultimate Software Group, Inc.
(Name of Registrant as Specified in Its Charter)

Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/X/	No fee required.
/ /	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
(5)	Total fee paid:
/ /	Fee paid previously with preliminary materials.
/ /	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

TABLE OF CONTENTS

THE ULTIMATE SOFTWARE GROUP, INC.
2000 ULTIMATE WAY
WESTON, FLORIDA 33326
April 5, 2017
Dear Shareholder:
You are cordially invited to attend the 2017 Annual Meeting of Shareholders of The Ultimate Software Group, Inc. (“Ultimate,” “we,” “us” or “our”), which will be held on Monday, May 15, 2017, at 10:00 a.m. (EDT), at Ultimate’s principal corporate office at 2000 Ultimate Way, Weston, Florida 33326 (the “Annual Meeting”).
The principal business of the meeting will be (i) to elect two directors to serve until the 2020 Annual Meeting of Shareholders or until their successors are duly elected and qualified; (ii) to ratify the appointment of KPMG LLP as Ultimate’s independent registered public accounting firm for the fiscal year ending December 31, 2017; (iii) to approve by non-binding advisory vote the compensation paid to Ultimate’s named executive officers; (iv) to recommend, by non-binding advisory vote, the frequency of future advisory votes on the compensation paid to Ultimate's named executive officers; and (v) to transact such other business as may properly come before the meeting or any postponement or adjournment thereof. During the Annual Meeting, we will also review the results of the past fiscal year and report on significant aspects of our operations during the first quarter of fiscal 2017.
There are a few changes to the Board slate this year. Robert A. Yanover, who has served on our Board and as Chairman of the Audit Committee of the Board since 1997, and LeRoy A. Vander Putten, who has served on our Board and as Chairman of the Compensation Committee of the Board since 1997, will be retiring and, accordingly, have not been re-nominated to stand for election at this year’s Annual Meeting. Each has provided invaluable advice and counsel during his tenure on the Board, and I speak for the entire Board when I say that we are grateful for their many contributions.
I am very pleased to have Jonathan D. Mariner as a new nominee for election to our Board this year. Mr. Mariner is a private investor and entrepreneur. Mr. Mariner was previously the Chief Investment Officer, Executive Vice President and Chief Financial Officer of Major League Baseball as well as holding other prestigious positions over 23 years in professional sports. He brings both knowledge and experience from serving on a number of corporate boards and audit committees of boards. His leadership skills and principles as demonstrated over his career will be an asset to our Board. In addition, I am also very pleased to have Jason Dorsey as a new nominee for election to our Board this year. Mr. Dorsey is the co-founder of The Center for Generational Kinetics which is the leading center for research, speaking and strategy surrounding Millennials and Generation Z. Mr. Dorsey brings experience working with over 50 clients each year including numerous Fortune 500 companies in various industries. As the leading expert and strategist on Millennials and Generation Z in the workforce, he will bring expert knowledge to our Board to assist management with our continued growth strategy in today's environment.
In accordance with the Securities and Exchange Commission (“SEC”) rule (“Notice and Access Rule”) that allows companies to furnish their proxy materials (including the form of proxy, this proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on February 24, 2017) over the Internet, we sent a Notice of Internet Availability of Proxy Materials (“Notice”) on or about April 5, 2017 to our shareholders of record as of March 21, 2017. We also provided access to our proxy materials over the Internet beginning on that date. As a result of the Notice and Access Rule, all shareholders receiving the Notice have the ability to access the proxy materials over the Internet and request to receive a paper copy of the proxy materials by mail. Instructions on how to access the proxy materials over the Internet or to request a paper copy may be found on the Notice. In addition, the Notice contains instructions on how shareholders may request to receive proxy materials electronically by e-mail.
Whether you plan to attend the Annual Meeting or not, to have your vote recorded, you should vote over the Internet or by telephone, or, if you requested paper copies of the proxy materials by mail, you can also vote by mail by following the instructions on the proxy card. Voting by any of these methods will ensure your representation at the Annual Meeting regardless of whether you attend in person. If you decide to attend the meeting, you may, of course, revoke your proxy and personally cast your votes.
We thank you for your continued interest in Ultimate.

Sincerely yours,
Scott Scherr
Chairman, President and Chief Executive Officer

THE ULTIMATE SOFTWARE GROUP, INC.
2000 ULTIMATE WAY
WESTON, FLORIDA 33326

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 15, 2017
TO THE SHAREHOLDERS OF THE ULTIMATE SOFTWARE GROUP, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of The Ultimate Software Group, Inc. ("Ultimate," "we," "us" or "our") will be held on Monday, May 15, 2017, at 10:00 a.m. (EDT), at Ultimate's principal corporate office at 2000 Ultimate Way, Weston, Florida 33326 for the following purposes:

1) To elect two directors to serve until the 2020 Annual Meeting of Shareholders or until their successors are duly elected and qualified;

2) To ratify the appointment of KPMG LLP as Ultimate's independent registered public accounting firm for the fiscal year ending December 31, 2017;

3) To approve by non-binding advisory vote the compensation paid to Ultimate's named executive officers;

4) To recommend, by non-advisory vote, the frequency of future advisory votes on the compensation paid to Ultimate's named executive officers; and

5) To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

Shareholders of record of the voting stock of Ultimate at the close of business on March 21, 2017 are entitled to notice of and to vote at the Annual Meeting or any postponement or adjournment thereof.

By Order of the Board of Directors:
Vivian Maza
Secretary

Weston, Florida
April 5, 2017

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDERS MEETING TO BE HELD ON MAY 15, 2017:

This proxy statement, the form of proxy and Ultimate’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (“2016 Annual Report”) are being mailed to shareholders who have requested hard copies on or after April 5, 2017.

Registered and beneficial shareholders may view and print Ultimate’s proxy statement and the 2016 Annual Report at www.proxyvote.com.

All shareholders may view and print Ultimate’s proxy statement and the 2016 Annual Report, which are located on the “Investors” link of Ultimate’s website at http://ultimatesoftware.com/investors.asp.

THE ULTIMATE SOFTWARE GROUP, INC.
2000 ULTIMATE WAY
WESTON, FLORIDA 33326

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS
MAY 15, 2017

This proxy statement (this “Proxy Statement”) is being furnished to holders of The Ultimate Software Group, Inc. (“Ultimate,” “we,” “us,” or “our”) common stock, par value $0.01 per share (the “Common Stock”). Proxies are being solicited on behalf of the Board of Directors of Ultimate (the “Board”) to be used at the Annual Meeting of Shareholders (the “Annual Meeting”) to be held on Monday, May 15, 2017, at 10:00 a.m. (EDT), at Ultimate’s principal corporate office at 2000 Ultimate Way, Weston, Florida 33326 and at any postponement or adjournment thereof, for the purposes set forth in the Notice of Annual Meeting of Shareholders.

Ultimate is using the Securities and Exchange Commission (the “SEC”) rule that allows companies to furnish their proxy materials over the Internet. As a result, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials (the “Notice”) instead of a paper copy of the proxy materials (including the form of proxy, this Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on February 24, 2017 (the “2016 Annual Report”), collectively, the “Proxy Materials”) on or about April 5, 2017. We also provided access to our Proxy Materials over the Internet beginning on that date. The Notice contained instructions on how to access this Proxy Statement and the 2016 Annual Report and how to vote online or by toll-free number. Subsequent to receiving the Notice, all shareholders have the ability to access the Proxy Materials over the Internet and request to receive a paper copy of the Proxy Materials by mail. Instructions on how to access the Proxy Materials over the Internet or to request a paper copy may be found on the Notice. In addition, the Notice contains instructions on how shareholders may request to receive Proxy Materials electronically by e-mail.

Registered and beneficial shareholders may view and print this Proxy Statement and the 2016 Annual Report at www.proxyvote.com.

All shareholders may view and print this Proxy Statement and the 2016 Annual Report, which are located on the “Investors” link of Ultimate’s website at http://ultimatesoftware.com/investors.asp.

Proxies are being solicited from holders of Ultimate’s Common Stock. If a proxy is properly executed and returned, the shares represented by it will be voted and, where specification is made by the shareholder as provided in such proxy, will be voted in accordance with such specification. Unless a shareholder specifies otherwise, all shares represented by valid proxies will be voted (i) FOR the election of the persons named in this Proxy Statement as nominees of Ultimate under the heading “Election of Directors;” (ii) FOR the ratification of the appointment of KPMG LLP as Ultimate’s independent registered public accounting firm for the fiscal year ending December 31, 2017; (iii) FOR approval, by non-binding advisory vote, of the compensation paid to Ultimate’s named executive officers ("NEOs"); (iv) FOR approval, by non-binding advisory vote, of the holding of a shareholder advisory vote on the compensation paid to Ultimate’s named executive officers every year; and (v) at the discretion of the proxy holders on any other matter that may properly come before the Annual Meeting or any adjournment thereof.

SOLICITATION OF PROXIES

Ultimate is paying all of the costs of soliciting proxies, including preparation costs, assembly, posting on the Internet, printing and mailing of the Proxy Materials, the Notice and any additional information furnished to shareholders. Proxies are being solicited by Ultimate primarily by mail and the Internet, but in addition, the solicitation by these means may be followed by solicitation in person, or by telephone, e-mail or facsimile, by directors, officers and other employees of Ultimate without additional compensation. Brokers, dealers, banks, voting trusts, custodians and other institutions, and their nominees, who are holders of shares of Ultimate's Common Stock on the Record Date, referred to below, will be requested to forward the soliciting material to the beneficial owners of such shares of Common Stock and to obtain authorization for the execution of proxies. Ultimate will, upon request, reimburse such institutions for their reasonable expenses in forwarding the Proxy Materials to their beneficial owners.

VOTING RIGHTS AND PROCEDURES

Only shareholders of record of the Common Stock of Ultimate at the close of business on March 21, 2017 (the "Record Date") will be entitled to vote at the Annual Meeting. As of that date, a total of 30,916,619 shares of Common Stock were outstanding, each share being entitled to one vote. There is no cumulative voting.

A majority of the issued and outstanding shares of Common Stock entitled to vote at the Annual Meeting, represented in person or by proxy, constitutes a quorum for the transaction of business at the Annual Meeting. If a shareholder abstains from voting as to any matter, then the shares held by such shareholder shall be deemed present at the Annual Meeting for purposes of determining a quorum. If a broker returns a "non-vote" proxy, indicating a lack of authority to vote on such matter, then the shares covered by such non-vote shall be deemed present at the Annual Meeting for purposes of determining a quorum but shall not be deemed to have been voted in favor of or against such matter.

Our By-laws require that a director nominee will be elected only if he or she receives a majority of the votes cast with respect to his or her election in an uncontested election (that is, the number of shares voted "for" a director nominee must exceed the number of votes cast "against" that director nominee). Abstentions from voting, as well as any broker non-votes, are not treated as votes cast and are not counted for purposes of determining the election of directors. In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), which is not the case for our Annual Meeting this year, the standard for election of directors is a plurality of the votes cast.

The affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote at the Annual Meeting is required for ratification of the appointment of KPMG LLP as Ultimate's independent registered public accounting firm for the fiscal year ending December 31, 2017, and the proposal for advisory approval of executive compensation. Abstentions will not be counted either for or against the proposal for the ratification of the appointment of KPMG LLP as Ultimate's independent registered public accounting firm for 2017 or the proposal for advisory approval of executive compensation.

The advisory vote on the frequency of future advisory shareholder votes on executive compensation asks the shareholders to express their preferences for one of three choices: every year, every other year or every three years. Abstentions will have the same effect as not expressing a preference.

A shareholder may revoke a proxy at any time prior to its exercise by giving to the Secretary of Ultimate a written notice of revocation of the proxy's authority prior to the voting thereof or by submitting a later dated proxy by telephone, on the Internet or by mail, or by voting in person at the Annual Meeting.

PROPOSAL I—ELECTION OF DIRECTORS

The Board of Ultimate is currently composed of seven members, divided into three classes. The members of each class are elected to serve three-year terms with the term of office of each class ending in successive years. Messrs. Robert A. Yanover and LeRoy A. Vander Putten serve in the class whose term expires at the Annual Meeting. Messrs. Robert A. Yanover, who has served on our Board and as Chairman of the Audit Committee of the Board since 1997, and LeRoy A. Vander Putten, who has served on our Board and as Chairman of the Compensation Committee of the Board since 1997, will be retiring and, accordingly, have not been re-nominated to stand for election at this year's Annual Meeting. Each has provided invaluable advice and counsel during his tenure on the Board.

The Board has nominated Jonathan D. Mariner and Jason Dorsey for election to the Board at the Annual Meeting for a term of three years, expiring at the 2020 Annual Meeting, and each has indicated a willingness to serve. Messrs. Marc D. Scherr, Rick A. Wilber and James A. FitzPatrick, Jr. serve in the class whose term expires at the Annual Meeting of Shareholders in 2018. Messrs. Scott Scherr and Alois T. Leiter serve in the class whose term expires at the Annual Meeting of Shareholders in 2019.

Our By-laws require that a director nominee will be elected only if he or she receives a majority of the votes cast with respect to his or her election in an uncontested election (that is, the number of shares voted "for" a director nominee must exceed the number of votes cast "against" that director nominee). Abstentions from voting, as well as any broker non-votes, are not treated as votes cast and are not counted for purposes of determining the election of directors. In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), which is not the case for our Annual Meeting this year, the standard for election of directors is a plurality of the votes cast.

Messrs. Jonathan D. Mariner and Jason Dorsey are new nominees to our Board and if elected will serve for a term of three years, expiring at the 2020 Annual Meeting.

In the event that Messrs. Mariner and Dorsey is unable or unwilling to serve as a nominee at the time of the Annual Meeting, the persons named as proxies in this Proxy Statement may vote for a substitute nominee chosen by the present Board to fill the vacancy. In the alternative, the proxies named in this Proxy Statement may vote just for the remaining nominees, if any, leaving a vacancy or vacancies that may be filled at a later date.

The following table sets forth certain information concerning the nominees, based on data furnished by them. Information regarding incumbent directors whose terms are not expiring is included in the section labeled "Directors and Executive Officers" below.

Name of Nominee	Age	Principal Occupation	Director Since
Jonathan D. Mariner	62	Founder and President of Taxday, LLC.	N/A
Jason Dorsey	38	Co-founder of The Center for Generational Kinetics	N/A

Mr. Jonathan D. Mariner is a private investor and entrepreneur, having recently retired from 23 years working in professional sports, including retiring in May 2016 after serving as Chief Investment Officer for 18 months, and having served over 12.5 years as Executive Vice President and Chief Financial Officer of Major League Baseball. He previously served as Executive Vice President and Chief Financial Officer for the Florida Marlins Baseball Club; and as Vice President and Chief Financial Officer for the Florida Panthers Hockey Club during their initial start-up and 1993-94 inaugural seasons. He brings both knowledge and experience from serving on a number of corporate boards and audit committees of boards. His leadership skills and principles as demonstrated over his career will be an asset to our Board. Mr. Mariner currently serves on several corporate boards: McGraw Hill Education; The Investor's Exchange (IEX), the new, SEC-approved public stock exchange; and FM Global Insurance Company. He also currently serves on the University of Virginia's Darden Graduate Business School's Board of Trustees; Little League Baseball's board of directors; and the Knight Commission on Intercollegiate Sports. Mr. Mariner has a B.S. degree in Accounting from the University of Virginia; an MBA degree from Harvard Business School; and is a former Certified Public Accountant (CPA). Mr. Mariner served as a director of PHH Corporation, a mortgage services solution company, from February 2005 to December 2010, BankAtlantic Corporation, a banking services provider, from April 2000 to April 2006 and Steiner Leisure Limited, an innovative spa company, from February 1997 to April 2006 where he also served on their compensation committee.

Mr. Jason Dorsey is Co-founder of The Center for Generational Kinetics ("TCGK"). Mr. Dorsey has been the co-owner of TCGK for seven years where he oversees research, strategy, and consulting. TCGK is a leading

Millennials and Generation Z research, speaking, and strategy firm in the U.S. TCGK clients span numerous industries including automotive, financial

6

services, retail, restaurants, technology, and manufacturing. TCGK's expert team works with over 150 clients each year including numerous Fortune 500 companies. Mr. Dorsey is considered a leading expert and strategist on Millennials and Generation Z in the workforce and as customers. Mr. Dorsey brings experience working with over 50 clients each year including numerous Fortune 500 companies in various industries. As the leading expert and strategist on Millennials and Generation Z in the workforce, he will bring expert knowledge to our Board to assist management with our continued growth strategy in today's environment.

THE BOARD RECOMMENDS A VOTE FOR THE ELECTION OF MESSRS. JONATHAN D. MARINER AND JASON DORSEY AS DIRECTORS OF ULTIMATE TO HOLD OFFICE UNTIL THE 2020 ANNUAL MEETING AND UNTIL THEIR RESPECTIVE SUCCESSORS ARE ELECTED AND QUALIFIED.

PROPOSAL II— RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of the Board (the "Audit Committee") has appointed KPMG LLP as the independent registered public accounting firm for Ultimate for the fiscal year ending December 31, 2017. KPMG LLP has served as the independent registered public accounting firm for Ultimate since 2002. A representative of KPMG LLP will be present at the Annual Meeting and will be given an opportunity to make a statement. The representative also will be available to respond to appropriate questions from shareholders.

Shareholder ratification of the appointment of KPMG LLP as Ultimate's independent registered public accounting firm is not required by Ultimate's By-Laws or otherwise. However, the Board is submitting the selection of KPMG LLP to the shareholders for ratification as a matter of corporate practice. The affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote is required for the ratification of the appointment of KPMG LLP as Ultimate's independent registered public accounting firm for the fiscal year ending December 31, 2017. Abstentions will not be counted either for or against the proposal for the ratification of the appointment of KPMG LLP as Ultimate's independent registered public accounting firm for 2017. If the shareholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain KPMG LLP. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of Ultimate and its shareholders.

THE BOARD RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS ULTIMATE'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017.

PROPOSAL III — ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and the SEC rules promulgated thereunder, we are providing our shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our Named Executive Officers ("NEOs") as disclosed in this Proxy Statement. This proposal, commonly known as a “say-on-pay” proposal, gives our shareholders the opportunity to express their views on our NEO's compensation. The vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies and practices described in this Proxy Statement. A proposal will be presented at the Annual Meeting in the form of the following resolution:

“RESOLVED, that the shareholders of Ultimate hereby approve the compensation paid to Ultimate’s NEOs, as disclosed in the proxy statement for Ultimate’s 2017 Annual Meeting of Shareholders pursuant to Item 402 of SEC Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion.”

The Board believes that our compensation program is consistent with the goals and objectives set forth under “Compensation Discussion and Analysis” in this Proxy Statement, namely, attracting and retaining key executives who are committed to Ultimate's core values of excellence, integrity and teamwork, while motivating the NEOs to achieve Ultimate's strategic goals and aligning their interests with those of our shareholders. The Board urges you to review carefully the information under “Compensation Discussion and Analysis” in this Proxy Statement and to vote, on an advisory basis, to approve the compensation of Ultimate’s NEOs, as disclosed in this Proxy Statement.

While the vote on named executive officer compensation is advisory and non-binding, the Board and Compensation Committee value the opinions of our shareholders and will consider the outcome of the vote when making future executive compensation decisions.

Response to Say-on-Pay Votes

In May 2016, we held a shareholder advisory (non-binding) vote on the compensation of our NEOs. A majority of shareholders approved the compensation of our NEOs, with over 63% of shareholder votes cast in favor of our 2016 "say-on-pay" resolution (excluding abstentions and broker non-votes). As we evaluated our compensation practices and talent needs after May 2016, the Compensation Committee carefully considered the level of support our shareholders expressed for our compensation philosophy and determined not to make any significant changes (except for modifications made to the Change in Control Plan I ("CIC Plan I") as discussed herein) to the design of our executive compensation program given the shareholder support of the compensation program in the 2016 advisory vote.

In recent years we have modified our executive compensation programs in significant ways to address concerns expressed by our shareholders and to better align the interests of our NEOs with the interests of our shareholders, including:

- Adoption of stock ownership guidelines for our CEO and members of the Board;
- Adoption of anti-hedging and anti-pledging policies for our CEO, executive officers, and members of the Board;
- Adoption of an executive officer compensation recovery, or "claw-back," policy; and
- Engagement of an independent national compensation consulting firm to advise us on our executive compensation arrangements.

In addition to the policies adopted above, the Board previously adopted two Amended and Restated Change in Control Bonus Plans ("CIC Plans") (first adopted in March 2004). The CIC Plan I provided for the payment of cash amounts to three of Ultimate's NEOs upon a “change in control” of Ultimate as defined in that plan. The CIC Plan II provided for the payment of cash amounts in the event of a similar “change in control” to the other two NEOs and certain other employees of Ultimate as designated by the Compensation Committee ("the CIC Consideration").

In March 2015, the Board and the Compensation Committee significantly amended the CIC Plan I and terminated the Change in Control Plan II ("CIC Plan II"). These changes reduced the aggregate potential payout under the CIC Plan I from 6% to 3.5% of the CIC Consideration. The individual participant’s interests were reduced from 3.5% to 2.25%. The additional significant potential cost associated with the Federal excise tax “gross-up” provisions under the CIC Plan I was reduced from 2.5% to 1.25% of the CIC Consideration.

In February 2016, the Board and the Compensation Committee further amended the Company’s CIC Plan I. These changes reduced the potential payout under the CIC Plan I from 3.5% to 1.85% of the CIC Consideration. The individual

9

participant’s interests were reduced from 2.25% to 1.125%. The additional significant potential cost associated with the Federal excise tax “gross-up” provisions under the CIC Plan I was reduced from 1.25% to 0.725% of the CIC Consideration.

In February 2017, our Board of Directors approved the termination of the CIC Plan I and all remaining awards that were outstanding under the CIC Plans (see discussion below in "Compensation Discussion and Analysis" on pages 22 to 38 under "Change In Control Bonus Plans").

The amendments and subsequent termination of our CIC Plans required providing participants with substantially equivalent value in exchange for the reduction of participant interests. The equity that was issued to unwind the CIC Plans was comparable to the percentage of equity that would have been issued in 2004 and 2007 if time-based equity had been issued at that time. The equity was issued in the form of restricted stock awards with three-year vesting schedules to strengthen future retention hold of our key executives and maintain their alignment with shareholder interests.

THE BOARD RECOMMENDS AN ADVISORY VOTE FOR THE APPROVAL OF THE COMPENSATION OF OUR NEOs, AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL IV - ADVISORY VOTE ON THE FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION

Pursuant to the Dodd-Frank Act and the SEC rules promulgated thereunder, we are also providing our shareholders with the opportunity to vote, on a non-binding, advisory basis, for their preference as to how frequently we should seek future advisory votes on the compensation of our named executive officers like the one provided for in Proposal III above. By voting with respect to this Proposal IV, shareholders may indicate whether they would prefer that we conduct future advisory votes on executive compensation once every one, two, or three years. Shareholders also may, if they wish, abstain from casting a vote on this proposal.

The Board has determined that an annual advisory vote on executive compensation will allow our shareholders to provide timely, direct input on Ultimate's executive compensation philosophy, policies and practices as disclosed in the proxy statement each year. The Board believes that an annual vote is consistent with our efforts to engage in an ongoing dialogue with our shareholders on executive compensation and corporate governance matters. Therefore, the Board recommends that you vote to hold the advisory vote on named executive officer compensation every year.

While this vote is advisory and non-binding, the Board will take the results of the vote into account in its decision when considering the frequency of future advisory votes on executive compensation.

The enclosed proxy card gives you four choices for voting on this proposal. You can vote, on an advisory basis, to hold a shareholder advisory vote on named executive officer compensation every year, every two years or every three years. You may also abstain from voting on this proposal. You are not voting to approve or disapprove the Board's recommendation on this proposal.

THE BOARD RECOMMENDS THAT AN ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION BE HELD EVERY YEAR.

CORPORATE GOVERNANCE, BOARD MEETINGS AND COMMITTEES OF THE BOARD

Corporate Governance Principles and Practice Highlights

We are committed to excellence in corporate governance and maintain policies and practices that promote good corporate governance. Many of these policies and practices are designed to ensure compliance with the listing requirements of The NASDAQ Stock Market LLC ("NASDAQ"); others are designed to implement corporate governance preferences of the Board.

Board Independence

The majority of our directors are independent of Ultimate and management. We are committed to maintaining a majority of independent directors.

Following consultation with counsel and based upon the facts described below, the Board has determined that the following individuals are independent directors within the meaning of NASDAQ rules: James A. FitzPatrick, Jr., Alois T. Leiter, LeRoy A. Vander Putten, Rick A. Wilber and Robert A. Yanover. In the course of the Board's determination regarding the independence of each non-employee director, it considered any transactions, relationships and arrangements as required by NASDAQ rules governing independence standards for directors. With respect to each of the three most recently completed fiscal years, the Board determined that there were no related party transactions with any independent directors.

The independent directors met regularly in executive session and outside the presence of Ultimate's management throughout the 2016 fiscal year and will do so throughout fiscal 2017 in compliance with NASDAQ rules.

Messrs. Jonathan D. Mariner and Jason Dorsey are standing for election for the first time at the 2017 Annual Meeting (see Proposal I - Election of Directors). The Board has determined that, if elected, pursuant to the applicable NASDAQ rules, Mr. Mariner would be an independent director.

Board Leadership

The Chairman of the Board, Scott Scherr, also serves as Ultimate's President and Chief Executive Officer. A combined Chairman and Chief Executive Officer role provides an efficient and effective leadership model because it fosters clear accountability, effective decision-making and alignment on corporate strategy. The Chief Executive Officer's direct involvement in Ultimate's operations and his familiarity with Ultimate's business and industry make him best positioned to lead productive Board meetings and strategic planning sessions. While Ultimate's independent directors bring experience, oversight and expertise from outside the Company and industry, as the founder of Ultimate, Scott Scherr brings company and industry-specific experience and expertise to the Board. The Board has not designated a lead independent director from among its members. The Board retains the authority to modify the foregoing leadership structures.

Board Role in Risk Oversight

Management is responsible for the day-to-day management of risks that Ultimate encounters, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. Management regularly presents reports to the Board from members of senior management on areas that may pose material risk to Ultimate, including operational, strategic, financial, compliance, legal, product, competitive and reputational risks. While oversight of risk management efforts is the responsibility of the entire Board, the Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of accounting, auditing, financial reporting and maintaining effective internal controls over financial reporting. The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of any risks arising from Ultimate's compensation policies and arrangements.

Hedging and Pledging Policies

Our directors and executive officers are prohibited from hedging their ownership of Ultimate Common Stock, including trading in options, puts, calls, or other derivative instruments related to Ultimate's Common Stock. Our directors and executive officers are generally prohibited from pledging their shares of Ultimate's Common Stock. A person covered by the pledging policy may request permission to pledge shares of Ultimate's Common Stock as collateral for a loan (not including a margin loan) if he or she demonstrates that (i) the value of all his or her pledged shares of Ultimate's Common Stock will not exceed 20% of his or her holdings and (ii) he or she has the financial capacity to repay the loan without resorting to the pledged securities. Currently, none of our executive officers or directors have any pledging arrangements. Nevertheless, the decision to grant or deny such a request remains with Ultimate.

Stock Ownership Guidelines

The Board has adopted stock ownership guidelines for our Chief Executive Officer and members of the Board. The guidelines were established to promote a long-term perspective in managing the company and align the interests of our shareholders, executives, and directors.

Claw-back Policy

The Board has adopted a claw-back policy under which in the event of a material restatement of our reported financial statements, the Board shall review any performance-based cash compensation paid to executive officers during the three years preceding such restatement. In the event the performance-based cash compensation would have been lower had it been calculated based on such restated financial statements, the Board shall have the authority to seek the recovery of such excess performance-based cash compensation.

Other Policies and Procedures

Key information regarding our corporate governance initiatives, Code of Business Conduct and Ethics and the charter for each standing committee of the Board, is posted on our website at www.ultimatesoftware.com.

Meetings and Meeting Attendance

During fiscal 2016, the Board held four Board meetings. During fiscal 2016, each director attended all of the meetings of the Board and of all of the meetings of the committees of the Board on which he served. The Board has an Executive Committee, an Audit Committee, a Compensation Committee and a Nominating Committee, which are described below.

Interested parties may communicate with the Board, anonymously if they wish, by sending a written note or memo to the Secretary, The Ultimate Software Group, Inc., 2000 Ultimate Way, Weston, Florida 33326. Communications that are intended specifically for non-management or independent directors should be sent to the above address to the attention of the Chairman of the Audit Committee. All such communications will be delivered unopened by the Secretary to the Chairman of the Board or the Chairman of the Audit Committee, as applicable.

Ultimate does not have a policy with respect to attendance by the directors at the Annual Meeting of Shareholders. Three of the seven members of the Board attended the 2016 Annual Meeting of Shareholders.

Executive Committee. The Executive Committee of the Board is composed of Messrs. Scott Scherr (Chairman), Marc D. Scherr and Robert A. Yanover. The Executive Committee has the authority to exercise (except as provided by law or as may have been specifically reserved by or for the Board) all the powers and authority of the Board in the management of the business and affairs of Ultimate between regular meetings of the Board and while the Board is not in session. The Executive Committee held no meetings during fiscal 2016.

Audit Committee. Messrs. Robert A. Yanover (Chairman), Rick A. Wilber and LeRoy A. Vander Putten are members of the Audit Committee of the Board. The Audit Committee oversees Ultimate’s financial reporting process on behalf of the Board and reviews the independence of Ultimate’s independent registered public accounting firm. The Audit Committee held five meetings during fiscal 2016. Mr. Jonathan D. Mariner is standing for election for the first time at the 2017 Annual Meeting. If elected, we anticipate that he will be appointed the Chairman of the Audit Committee and replace Mr. Vander Putten as our "audit committee financial expert".

The Board has determined that the Audit Committee’s current member composition satisfies the NASDAQ rules that govern audit committee composition, including the requirement that audit committee members all be “independent directors” as that term is defined by NASDAQ Rule 5605(a)(2). The Board has determined that Mr. LeRoy A. Vander Putten is an “audit committee financial expert” as defined in the rules of the SEC. Ultimate has established an Audit Committee Charter that sets forth the Audit Committee's principal duties and responsibilities. This charter is available on our website at www.ultimatesoftware.com.

Compensation Committee. Messrs. LeRoy A. Vander Putten (Chairman), Robert A. Yanover, Rick A. Wilber, Alois T. Leiter and James A. FitzPatrick are members of the Compensation Committee of the Board. The Compensation Committee is responsible for determining the compensation and benefits for the executive officers of Ultimate and administers Ultimate’s stock-based plan and oversees such other benefit plans as Ultimate may from time to time maintain. The Compensation Committee held four meetings during fiscal 2016. Ultimate has established a Compensation Committee Charter, that sets forth the Compensation Committee's principal duties and responsibilities. This charter is available on our website at www.ultimatesoftware.com. Mr. Vander Putten is retiring and not standing for re-election at the 2017 Annual Meeting. We expect that Mr. FitzPatrick will be appointed as the new Chairman of the Compensation Committee of the Board after the 2017 Annual Meeting.

Compensation Consultant. The Compensation Committee engaged Compensia, Inc. ("Compensia") to advise the Compensation Committee on marketplace trends in executive compensation, management proposals for compensation programs, and executive officer compensation decisions. Compensia also evaluates equity compensation programs generally. Compensia also consults with the Compensation Committee about its recommendations to the Board on CEO and director compensation.

Consultant Independence. Compensia is directly accountable to the Compensation Committee. To maintain the independence of the firm's advice, Compensia does not provide any services for Ultimate other than those described above. In addition, the Compensation Committee conducted a conflict of interest assessment by using the factors applicable to compensation consultants under SEC rules and NASDAQ rules and no conflict of interest was identified.

Nominating Committee. Messrs. James A. FitzPatrick, Jr. (Chairman), Rick A. Wilber and Alois T. Leiter are members of the Nominating Committee of the Board. The primary function of the Nominating Committee is to recommend director-nominees to be considered for election or appointment by the Board. The Nominating Committee held two meetings during fiscal 2016. 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 at www.ultimatesoftware.com. The Nominating Committee's and the Board's goal is to nominate candidates who represent diverse viewpoints. When identifying nominees to serve as directors, the Nominating Committee will consider candidates with a diversity of experiences and backgrounds who will enhance the quality of the Board's deliberations and decisions. To further these aspirations, the Board recently adopted a board diversity policy which is available on our website at www.ultimatesoftware.com.

When considering potential director candidates, the Nominating Committee considers 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.

In fiscal 2016, 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 shareholders in a similar manner as those recommended by members of management or other directors. The name and qualifications of, and other information specified in Ultimate's By-laws with respect to any recommended candidate for director, should be sent to the attention of the Secretary of Ultimate in accordance with the procedures set forth under the caption “Shareholder Proposals for the 2018 Annual Meeting of Shareholders.” In addition, we recently adopted “proxy access,” which, under certain circumstances, allows a shareholder or group of up to twenty shareholders who have owned at least 3% of Ultimate’s Common Stock for at least three years to submit director nominees (up to the greater of two Directors or 20% of the Board) for inclusion in our proxy materials if the shareholder(s) and the nominee(s) satisfy the requirements specified in our By-laws. Shareholders who wish to nominate directors for inclusion in the Company’s proxy materials or directly at an annual meeting of shareholders in accordance with the procedures in our By-laws should follow the instructions under the “Shareholder Proposals for the 2018 Annual Meeting of Shareholders.”

DIRECTOR 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 Ultimate's Amended and Restated 2005 Equity and Incentive Plan (the "Plan").

During 2016, non-employee directors and the Chairmen of the Audit, Compensation and Nominating Committees of the Board, respectively, were granted Restricted Stock Awards for each regular Board and Committee meeting attended. Under the compensation arrangement, (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 2016 and (ii) each of the Chairmen of the Audit Committee, Compensation and Nominating Committee was granted a restricted stock award of 50 shares of Common Stock for attendance at each regular meeting of the committee during 2016 that he chaired.

In addition, 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. The date of grant shall not be a date prior to the date of the Board's determination of the same.

All Restricted Stock Awards to non-employee directors 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 at the end of his term or the occurrence of a change of control of Ultimate.

All directors are reimbursed (in cash) for expenses incurred in connection with their attendance at Board and Committee meetings.

2016 DIRECTOR COMPENSATION

Name (1)	($) Fees Earned or Paid in Cash	($) Stock Awards (2)	($) Option Awards	($) Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	($) All Other Compensation	($) Total
Robert A. Yanover	$ —	$395,682	$ —	$ —	—	$ —	$395,682
LeRoy A. Vander Putten	—	395,682	—	—	—	—	395,682
James A. FitzPatrick, Jr.	—	375,569	—	—	—	—	375,569
Rick A. Wilber	—	357,248	—	—	—	—	357,248
Alois T. Leiter	—	357,248	—	—	—	—	357,248

(1) Messrs. Scott Scherr and Marc D. Scherr are not included in this table as they are employees of Ultimate and receive no compensation for their services as directors. The compensation for Messrs. Scott Scherr and Marc D. Scherr as employees is shown in the Summary Compensation Table.

(2) The amounts reported in the Director Compensation table above represent the aggregate grant date fair value of Restricted Stock Awards granted to each director as compensation costs for Board services in accordance with Accounting Standards Codification ("ASC") 718, "Compensation – Stock Compensation," ("ASC 718") for fiscal 2016. Under ASC 718, the fair value of each Restricted Stock Award is measured based on the closing market price of Ultimate's Common Stock at the date of grant and is recognized on a straight-line basis over the four-year cliff vesting period. Holders of restricted stock awards have all rights of a shareholder including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto. Each award becomes fully vested on the fourth anniversary of the respective date of grant, subject to the grantee's continued Board service with Ultimate on each such vesting date and subject further to accelerated vesting in the event of a change in control of Ultimate, death or disability, or at cessation of his Board service at the end of his term.

The number of outstanding stock option awards and outstanding Restricted Stock Awards for each non-employee director as of December 31, 2016 was as follows:

Name	Outstanding Option Awards	Outstanding Restricted Stock Awards
Robert A. Yanover	6,250	10,812
LeRoy A. Vander Putten	—	10,812
James A. FitzPatrick, Jr.	22,500	9,158
Rick A. Wilber	22,500	8,758
Alois T. Leiter	22,500	8,758

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of Ultimate's Common Stock as of March 8, 2017 (unless otherwise noted) by (i) each person who is known by Ultimate to own beneficially more than 5% of the Common Stock; (ii) each director; (iii) each executive officer named in the Summary Compensation Table under the heading "Compensation Discussion and Analysis" in this Proxy Statement; and (iv) all directors and executive officers as a group:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (2)
FMR LLC (3) 245 Summer Street Boston, MA 02210	3,412,778	11.0 %
BlackRock, Inc. (4) 40 East 52nd Street New York, NY 10022	2,256,713	7.3 %
The Vanguard Group (5) 100 Vanguard Boulevard Malvern, PA 19355	2,119,560	6.9 %
Scott Scherr (6)	437,902	1.4 %
Marc D. Scherr (7)	376,379	1.2 %
Mitchell K. Dauerman (8)	133,461	*
Greg Swick (9)	42,098	*
Adam Rogers (10)	54,959	*
James A. FitzPatrick, Jr. (11)	30,421	*
LeRoy A. Vander Putten (12)	20,158	*
Rick A. Wilber (13)	141,688	*
Robert A. Yanover (14)	90,389	*
Alois T. Leiter (15)	179,682	*
All directors and executive officers as a group (10 persons) (16)	1,507,137	4.9 %

* Indicates beneficial ownership of less than 1.0% of the outstanding Common Stock.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to securities. Shares of Common Stock issuable upon the exercise of stock options exercisable within 60 days from March 8, 2017, are deemed outstanding and to be beneficially owned by the person holding such option for purposes of computing such person's percentage ownership, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Ultimate has made restricted stock awards to NEOs and non-employee directors under the Plan (“Restricted Stock Awards”). All shares of Common Stock issued under the Restricted Stock Awards are considered to be beneficially owned for purposes of computing the holders' respective percentages of ownership in this table. Ultimate has also made awards of stock units under the Plan (“Stock Unit Awards”). Stock Unit Awards are not included in this table since the grantee does not have any rights as a shareholder with respect to the shares subject to a 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. Except for shares held jointly with a person's spouse or subject to applicable community property laws, or as indicated in the footnotes to

this table, each shareholder identified in this table possesses the sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by such shareholder.

(2) Applicable percentage of ownership is based on 30,915,109 shares of Common Stock outstanding.

(3) Represents shares held as of December 31, 2016 as reported on Schedule 13G filed by FMR LLC. As reported on Schedule 13G, FMR LLC has sole voting power of 332,160 shares of Common Stock and sole dispositive power of 3,412,778 shares of Common Stock. Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares of common stock reflected as beneficially owned by FMR LLC. The interest of one person, Fidelity Contrafund, an investment company registered under the Investment Company Act of 1940, in the shares of common stock reflected as beneficially owned by FMR LLC amounted to 1,872,825 shares of Common Stock.

(4) Represents shares held as of December 31, 2016 as reported on Schedule 13G/A filed by BlackRock, Inc. As reported on Schedule 13G/A, BlackRock, Inc. has sole voting power of 2,125,135, sole dispositive power of 2,251,661, shared voting power of 5,052, and shared dispotive power of 5,052, shares of Common Stock. As reported on Schedule 13G, BlackRock, Inc. is a parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G) under the Exchange Act. The aggregate amount beneficially owned by each reporting person of 2,256,713 shares of Common Stock of Ultimate is on a consolidated basis and includes any beneficial ownership separately reported by a subsidiary.

(5) Represents shares held as of December 31, 2016 as reported on Schedule 13G/A filed by The Vanguard Group ("Vanguard"). As reported on Schedule 13G/A, Vanguard has sole voting power of 16,627, sole dispositive power of 2,099,982, shared voting power of 4,451 and shared dispositive power of 19,578, shares of Common Stock of Ultimate. As reported on Schedule 13G/A, Vanguard is an investment adviser in accordance with 240.13d-1(b)(1)(ii)(E) under the Exchange Act. The aggregate amount beneficially owned by each reporting person of 2,119,560 shares of Common Stock of Ultimate is on a consolidated basis and includes any beneficial ownership separately reported by a subsidiary.

(6) Represents 25,000 shares of Common Stock held by Mr. Scott Scherr and 412,902 shares of Common Stock subject to Restricted Stock Awards held by Mr. Scott Scherr.

(7) Represents 31,594 shares of Common Stock held by Mr. Marc D. Scherr and 344,785 shares of Common Stock subject to Restricted Stock Awards.

(8) Represents 22,319 shares of Common Stock held by Mr. Mitchell K. Dauerman and 111,142 shares of Common Stock subject to Restricted Stock Awards.

(9) Represents 42,098 shares of Common Stock subject to Restricted Stock Awards held by Mr. Greg Swick.

(10) Represents 3,482 shares of Common Stock held by Mr. Adam Rogers and 51,477 shares of Common Stock subject to Restricted Stock Awards.

(11) Represents 2,880 shares of Common Stock held by Mr. FitzPatrick, exercisable options to purchase 18,750 shares of Common Stock and 8,791 shares of Common Stock subject to Restricted Stock Awards.

(12) Represents 10,181 shares of Common Stock held by Mr. Vander Putten and 9,977 shares of Common Stock subject to Restricted Stock Awards.

(13) Represents 110,847 shares of Common Stock held by Mr. Wilber, exercisable options to purchase 22,500 shares of Common Stock and 8,341 shares of Common Stock subject to Restricted Stock Awards.

(14) Represents 26,376 shares of Common Stock held by Mr. Yanover, 3,360 shares of Common Stock held by Mr. Yanover's spouse, 44,026 shares of Common Stock held by a GRAT of which Mr. Yanover is the trustee, 400 shares of Common Stock held by certain trusts established for the benefit of Mr. Yanover's nieces and nephew, exercisable options held by Mr. Yanover to purchase 6,250 shares of Common Stock and 9,977 shares of Common Stock subject to Restricted Stock Awards. Mr. Yanover disclaims beneficial ownership of the shares held by his spouse, shares held by the GRAT and shares owned by the trusts established for the benefit of his nieces and nephews.

(15) Represents 150,931 shares of Common Stock held by Mr. Leiter, exercisable options to purchase 18,750 shares of Common Stock, 1,315 shares of Common Stock held by certain trusts for the benefit of Mr. Leiter's children, 345 shares of Common Stock held by certain trusts established for the benefit of Mr. Leiter's minor children and 8,341 shares of Common Stock subject to Restricted Stock Awards. Mr. Leiter disclaims beneficial ownership of the shares owned by the trusts established for the benefit of his children.

(16)

Represents an aggregate of 433,056 shares of Common Stock (both directly and indirectly owned), 1,007,831 shares of Common Stock subject to Restricted Stock Awards and exercisable options to purchase an aggregate of 66,250 shares of Common Stock.

DIRECTORS AND EXECUTIVE OFFICERS

The directors, director nominees and NEOs (Messrs. Scott Scherr, Marc D. Scherr, Mitchell K. Dauerman, Greg Swick and Adam Rogers), and their ages as of February 28, 2017, are as follows:

Name	Age	Position(s)
Scott Scherr	64	Chairman of the Board, President and Chief Executive Officer
Marc D. Scherr	59	Vice Chairman of the Board and Chief Operating Officer
Mitchell K. Dauerman	60	Executive Vice President, Chief Financial Officer and Treasurer
Greg Swick	53	Senior Vice President, Chief Enterprise Sales Officer
Adam Rogers	42	Senior Vice President, Chief Technology Officer
James A. FitzPatrick, Jr.	67	Director
Alois T. Leiter	51	Director
Rick A. Wilber	70	Director
LeRoy A. Vander Putten	82	Director
Robert A. Yanover	80	Director
Jonathan D. Mariner	62	Director Nominee
Jason Dorsey	38	Director Nominee

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. 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 Automatic Data Processing, Inc. (“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 late father, Reuben Scherr, in 1959. He is the brother of Marc Scherr, the Vice Chairman of the Board and Chief Operating Officer of Ultimate, and the father-in-law of Adam Rogers, Senior Vice President and Chief Technology Officer. Mr. Scherr shares a household with Vivian Maza, our Chief People Officer and Secretary.

As Ultimate's founder and Chief Executive Officer, Mr. Scherr brings to the Board a unique and deeply rooted understanding of our Company, its business, its employees and its customers. During his long tenure as Chairman of our Board and our Chief Executive Officer, Mr. Scherr's leadership skills have been essential to Ultimate's attraction and retention of high quality personnel, product development, attraction and retention of customers, and establishment of a culture of teamwork that has allowed Ultimate to grow from a start-up operation in 1990 to a leading provider of human capital management solutions.

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. Mr. Scherr’s long tenure in our executive and Board leadership supports institutional continuity and industry knowledge accumulated through all phases of economic cycles and through Ultimate’s expansion over that period. With his experience as a practicing lawyer and businessman, as well as his longstanding position as a senior executive of Ultimate, Mr. Scherr brings to Ultimate’s Board invaluable insight in developing corporate strategy, strategic relationships, ethical practices, quality staff and product differentiation.

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, serving as a Partner in the firm from 1988 to 1996. Mr. Dauerman is a Certified Public Accountant. Mr. Dauerman's longstanding experience with accounting principles, financial reporting rules and regulations, income and sales tax rules and regulations, financial planning and general oversight of the financial reporting process, both as a former partner of KPMG LLP and as our Chief Financial Officer since 1996, as well as his role interfacing with the analyst and investor communities, are invaluable to the Board.

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.

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.

James A. FitzPatrick, Jr. has served as a director of Ultimate since July 2000, is Chairman of the Nominating Committee of the Board and is a member of the Compensation Committee. 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. Mr. FitzPatrick brings to the Board his longstanding experience as a practicing attorney, including experience with corporate governance, contractual matters, private and public capital raising, purchase and sale of assets and mergers and acquisitions. Mr. FitzPatrick’s knowledge of corporate and securities laws and corporate governance facilitates the Board’s oversight responsibilities concerning such areas.

Alois T. 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. He has served on the Executive Committee of New York City's official tourism marketing organization, NYC & Company, since 2000 and is a member of 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. Mr. Leiter brings to our Board and to our Company a strong understanding of leadership, dedication, performance under pressure and the importance of communication and teamwork to the operations of Ultimate. Mr. Leiter's success as a professional athlete and television broadcaster reflects a commitment to excellence that he regularly imparts to our management and employees as a member of our Board. Mr. Leiter also brings to the Board 19 years of proven leadership skills and management experience as president and founder of Leiter's Landing, a charitable organization, and the knowledge and experience acquired through his service on a number of New York state and community boards.

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 owned and operated a number of Hallmark Card stores, from 1995 until 2013, at which time Mr. Wilber retired. Mr. Wilber served as a director of Synergy Resource Corporation, an oil and gas exploration company, from October 2008 through March 2017. 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.

Jonathan D. Mariner is a private investor and entrepreneur, having recently retired from 23 years working in professional sports, including retiring in May 2016 after serving as Chief Investment Officer for 18 months, and having served over 12.5 years as Executive Vice President and Chief Financial Officer of Major League Baseball. He previously served as Executive Vice President and Chief Financial Officer for the Florida Marlins Baseball Club; and as Vice President and Chief Financial Officer for the Florida Panthers Hockey Club during their initial start-up and

1993-94 inaugural seasons. He brings both knowledge and experience from serving on a number of corporate boards and audit committees of boards. His leadership skills and principles as demonstrated over his career will be an asset to our Board. Mr. Mariner currently serves on several corporate boards: McGraw Hill Education; The Investor’s Exchange (IEX), the new, SEC-approved public stock exchange; and FM Global Insurance Company. He also currently serves on the University of Virginia’s Darden Graduate Business School’s Board of Trustees; Little League Baseball’s board of directors; and the Knight Commission on Intercollegiate Sports. Mr. Mariner has a B.S. degree in Accounting from the University of Virginia; an MBA degree from Harvard Business School; and is a former Certified Public Accountant (CPA). Mr. Mariner served as a director of PHH Corporation, a mortgage services solution company, from February 2005 to December 2010, BankAtlantic Corporation, a banking services provider, from April 2000 to

April 2006 and Steiner Leisure Limited, an innovative spa company, from February 1997 to April 2006 where he also served on their compensation committee.

Jason Dorsey is Co-founder of The Center for Generational Kinetics ("TCGK"). Mr. Dorsey has been the co-owner of TCGK for seven years where he oversees research, strategy, and consulting. TCGK is a leading Millennials and Generation Z research, speaking, and strategy firm in the U.S. TCGK clients span numerous industries including automotive, financial services, retail, restaurants, technology, and manufacturing. TCGK's expert team works with over 150 clients each year including numerous Fortune 500 companies. Mr. Dorsey is considered a leading expert and strategist on Millennials and Generation Z in the workforce and as customers. Mr. Dorsey brings experience working with over 50 clients each year including numerous Fortune 500 companies in various industries. As the leading expert and strategist on Millennials and Generation Z in the workforce, he will bring expert knowledge to our Board to assist management with our continued growth strategy in today's environment.

Information regarding director nominees Messrs. Jonathan D. Mariner and Jason Dorsey are included under the heading "PROPOSAL I – ELECTION OF DIRECTORS."

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Discussion and Analysis

This Compensation Discussion and Analysis ("CD&A") provides information regarding the fiscal 2016 compensation program for our principal executive officer, our principal financial officer, and our three executive officers who were our most highly-compensated executive officers as of the end of fiscal 2016. These individuals were:

- Scott Scherr, our Chairman of the Board, President and Chief Executive Officer;
- Marc D. Scherr, our Vice Chairman of the Board and Chief Operating Officer;
- Mitchell K. Dauerman, our Executive Vice President, Chief Financial Officer and Treasurer;
- Greg Swick, our Senior Vice President, Chief Enterprise Sales Officer; and
- Adam Rogers, our Senior Vice President, Chief Technology Officer.

These executive officers were our NEOs for fiscal 2016. In this CD&A, Ultimate Software Group, Inc. is referred to as "our," "us," "we," "Company" or "Ultimate."

In this CD&A we describe the material elements of our executive compensation program during the fiscal year ended December 31, 2016. We also provide an overview of our executive compensation philosophy, as well as our principal compensation policies and practices. Finally, we analyze how and why the Compensation Committee of the Board arrived at the specific compensation decisions for our executive officers, including the NEOs, in fiscal 2016, and discuss the key factors that the Compensation Committee considered in determining the compensation of our executive officers.

Executive Overview

Fiscal 2016 Business Summary

As a leading provider of cloud-based human capital management (“HCM”), our long-term success depends on, but is not limited to, our ability to (i) develop, enhance and market our products and services to keep pace with our competitors; (ii) adapt to technological advancements and changing industry standards; and (iii) expand the functionality of our products and services to address the increasingly sophisticated requirements of our customers. To achieve these goals, it is critical that we can attract, motivate and retain highly talented individuals at all levels of the organization who are committed to Ultimate’s core values of excellence, integrity and teamwork.

During fiscal 2016, we delivered strong financial results, including the following:

- Grew recurring revenues 27% from $516.4 million for 2015 to $654.2 million for 2016;
- Achieved an annualized retention rate, on a rolling 12-month basis, of approximately 97% for our recurring revenue cloud customer base as of December 31, 2016;
- Grew total revenues 26% from $618.1 million for 2015 to $781.3 million for 2016;
- Increased our non-GAAP (as described below) operating income from $126.8 million for 2015 to $157.6 million for 2016; and
- increased our non-GAAP net income from $78.8 million for 2015 to $96.2 million for 2016;
- Grew cash from operations by 12% from $142.7 million for 2015 to $159.5 million for 2016;
- Our operating income approximated the 84th percentile relative to our 2016 Peer Group (as defined under the heading "The Compensation Committee's Processes") in 2016 and our net income approximated the 89th percentile relative to our 2016 Peer Group in 2016; and
- Our one - and five-year total shareholder returns as of December 31, 2016 were -7% and 180%, respectively, on an absolute basis. Our one-year and five-year total shareholder returns as of December 31, 2016 were -7% and 23%, respectively, on an annualized basis. Our one-year total shareholder return as of December 31, 2016 was at the 67th percentile relative to our 2016 Peer Group while our five-year total shareholder return as of December 31, 2016 was at the 74th percentile of our 2016 Peer Group.;

- In October 2016, the Compensation Committee intended to award Messrs. Scott Scherr, Marc Scherr and Mitchell Dauerman an aggregate of 105,000 Restricted Stock Awards with an estimated value of $22.1 million. These award recommendations were determined based on a review of applicable competitive market data developed by the Compensation Committee's independent consultant along with consideration of relevant qualitative factors including each executive's performance and ongoing criticality. In light of the modifications to the CIC Plans discussed below, the recipients informed the Compensation Committee that they would waive their rights to receive these awards, and therefore the Compensation Committee did not grant Messrs. Scott Scherr, Marc D. Scherr and Mitchell K. Dauerman these awards.

Our non-GAAP financial information excludes non-cash stock-based compensation expense, non-cash amortization of acquired intangible assets and transaction costs related to business combinations. See “Non-GAAP Financial Information” on pages 41-42 in our 2016 Annual Report on Form 10-K filed with the SEC on February 24, 2017 and "Use of Non-GAAP Financial Information" on page 12 in our press release incorporated by reference to Exhibit 99.1 to Ultimate's Form 8-K filed with the SEC on February 8, 2017.

Aligning Management Incentives with Long Term Shareholder Value

As part of an on-going comprehensive review of the senior officer compensation arrangements, the Board of Directors and the Compensation Committee took actions to terminate the CIC Plans primarily to better align management's incentives with long-term value creation for our shareholders and significantly reduce the aggregate amount of cash payments that would be due to senior management upon a sale of the Company. Such cash payments included a significant amount attributable to the Federal excise tax “gross up.”

Ultimate Software became a publicly traded company in June 1998 with a license-based business model for its UltiPro product offering. During 2000-2004, we successfully transitioned our business model from a license-based model to a recurring revenue-based model or cloud model. This cloud-based business model has created consistent annual recurring revenue growth and long-term shareholder value reflected in the significant growth in the aggregate market value of shares of Common Stock outstanding based upon the closing price of such shares on The NASDAQ Stock Market LLC (the "Aggregate Market Value") of Ultimate. As of June 30, 2004, the Aggregate Market Value of the Company was approximately $200 million.

After this successful transition to the cloud business model, the Compensation Committee engaged an independent compensation consulting firm in 2004 to advise us on our executive compensation arrangements. Based upon their recommendation and the Company’s Aggregate Market Value as of June 30, 2004, the Board adopted the CIC Plan I (as defined below) at the time in lieu of granting time-based equity awards to Messrs. Scott Scherr, Marc Scherr and Mitchell Dauerman which would have been part of the normal annual compensation for such officers.

The CIC Plan I was modified in 2007 to, among other things, increase those NEOs, respective interests again in lieu of granting time-based equity awards. As of June 29, 2007, the Company’s Aggregate Market Value was approximately $700 million.

During its review of the CIC Plans (as defined below), the Compensation Committee, along with its independent compensation consultant, focused on how best to align management incentives with the creation of long-term shareholder value, given that a significant amount of potential future compensation to our senior executive officers, which would have been part of the normal annual compensation for such officers, would be realized only if there was a sale of the Company. The Compensation Committee also considered:

- Senior management's focus on growing the business irrespective of any sale of the Company. Consideration was given to the consistency of the Company's performance and the impact of the Company’s strong culture generated by the long tenure and strong performance of its senior management team. We increased ongoing retention and shareholder alignment through unwinding the CIC Plans by providing for additional 3-year time-based vesting for the Restricted Stock Awards provided to the management team. ;
- The financial cost and dilutive impact associated with unwinding the CIC Plans. The CIC Plans required providing participants with substantially equivalent value in exchange for the reduction of participant interests. The CIC Plans could not be simply canceled;
- The significant savings of the aggregate potential cost of the CIC Plans via the reduction and eventual elimination of the Federal excise tax “gross up” provisions; and

• Feedback from our shareholders as outlined below.

After reviewing these considerations, the Compensation Committee recommended to the Board of Directors and the Board of Directors approved amendments to the CIC Plans in March 2015, in February 2016 and in February 2017, that among other things began to unwind and eventually terminate the CIC Plans through the issuance of Restricted Stock Awards substantially equivalent to the percentage of equity that would have been issued in 2004 and 2007 if time-based equity had been issued at that time to the participants, versus a one-time payout. In order to retain shareholder alignment and strengthen executive equity retention profiles, the awards have three-year vesting periods from each grant date.

Continued Shareholder Sentiment and Outreach

In addition to holding an annual advisory vote on executive compensation, we are committed to ongoing engagement with our shareholders on executive compensation and corporate governance issues. The Compensation Committee considers the results of the advisory say-on-pay votes on the compensation of the NEOs in determining the executive compensation pay levels and structures. Our CFO and our CEO are active in attending investor meetings, including conferences, throughout the year regarding our executive compensation programs, financial results and the Company's long-term business plans. Our outreach efforts to key shareholders include in-person and telephonic meetings with our CFO and CEO, as well as our other senior executive officers.

Throughout 2016, we contacted shareholders holding over 80% of our outstanding Common Stock, and as of the date of this filing, during 2017 we have contacted shareholders holding approximately 30% of our outstanding Common Stock. During on-going discussions with our shareholders, we typically explain, among other things, our executive compensation philosophy and practices, and the background and rationale for our previous modifications and termination of the CIC Plans. With respect to the amendments and subsequent termination of the CIC Plans, we explained to shareholders that it was the Company’s and the Board’s belief that it was better for shareholders that senior management focus on growing the business irrespective of any sale of the Company, therefore mitigating any risk this may present to Company and better aligning the interests of our shareholders and management. Management and the Board of Directors do not have any current plans to establish new change in control plans. In addition, we explained the amendments resulted in the significant reduction of the potential aggregate cost of the CIC Plans via the elimination of the Federal excise tax “gross up” provisions. Assuming an Aggregate Market Value of approximately $6.0 billion, we explained that we estimated that the termination of the CIC Plan I has resulted in a permanent cost savings to shareholders of approximately $150 million relating to the Federal excise tax gross-up provisions. Of these shareholders contacted, with the exception of a minority representing less than approximately 5% of our outstanding Common Stock, we did not receive negative feedback from any investors regarding the modifications we made to, and the termination of, our CIC Plans or other executive compensation practices.

At our 2016 annual meeting of shareholders, approximately 63% of the shares that were voted were cast in favor of our advisory vote on named executive officer compensation, or our "say-on-pay vote." This vote in support of our "say-on-pay" proposal occurred after the first two issuances of Restricted Stock Awards beginning the unwinding of the CIC Plans in March 2015 and February 2016.

Executive Compensation Policy

The HCM market is a multi-billion dollar market, and we have only a small percentage of that as of the date of this filing. We believe we can continue to expand our penetration in this market, and we believe retaining highly talented and motivated executives is an important component of achieving this goal. Our primary financial goals are to: increase recurring revenues through new sales and through high retention rates of our customers; and deliver positive operating margins.

Our belief is that compensation should be based on factors including the combination of the level of job responsibility, individual performance and Ultimate’s financial performance. As employees progress to higher levels in the organization, an increasing proportion of their pay should be linked to Ultimate’s performance, since they are more able to affect Ultimate’s financial results. Our overall philosophy is to provide our shareholders with long-term value and align our NEO's equity compensation with shareholders value through the use of Restricted Stock Awards with three-year annual vesting.

Additionally, we believe compensation should reflect the value of the job in the marketplace. In order to attract and retain a highly skilled work force, we must remain competitive with the pay of other employers who compete with us for employee talent. Although programs and individual pay levels may reflect differences in job responsibilities, geographies and marketplace considerations, the overall structure of compensation and benefit programs should be broadly similar across Ultimate's employee base.

We believe the key elements of our fiscal 2016 executive compensation program align the interests of our NEOs with our long-term strategic direction and the interests of shareholders, and help reduce the possibility of our NEOs making business decisions that could promote short-term results or individual compensation at the expense of long-term value to Ultimate and its shareholders.

- CEO Base Salary: The base salary for our CEO was unchanged for the past four fiscal years and was not increased for the 2017 fiscal year.
- Incentive Awards Payable in Cash: Cash incentive awards are earned only if the Company exceeds target financial performance goals. These goals are the same as the annual financial guidance the Company provides to its shareholders.
- Equity Incentive Awards Linked to Long-term Value and Alignment with Shareholder Interests: The Company has always maintained a fundamental belief of making business decisions that positively impact the business and its customers for the long-term versus promoting short-term results or individual compensation incentives. Our 2016 Restricted Stock Awards vest over three years in annual installments. If the respective NEO does not perform, then the value of the restricted stock award, which comprises an overwhelming portion of the NEO's target compensation, may decline. We believe these awards create strong alignment with shareholders' interests over the long-term as the terms of such awards require continued performance by the NEO and correlate the NEO's compensation with shareholder outcomes.

The 2016 total compensation of our CEO was approximately 97% equity-based which we believe is in alignment with the long-term interests of our shareholders.

Compensation Philosophy and Design

Our Compensation Committee is responsible for developing and approving Ultimate’s compensation program for the executive officers and other officers of Ultimate. In addition, our Compensation Committee administers Ultimate’s equity-based plan and oversees such other benefit plans as Ultimate may from time to time maintain.

Our Compensation Committee is composed of five non-employee directors, Messrs. LeRoy A. Vander Putten (Chairman), Rick A. Wilber, Robert A. Yanover, Alois T. Leiter and James A. FitzPatrick, Jr.

The executive compensation program was designed to reward executive officers for achieving Ultimate’s strategic goals and to align the interests of the executive officers with those of Ultimate’s shareholders. In particular, the program is intended to (i) give the executive officers the opportunity to acquire a proprietary interest in Ultimate’s Common Stock by receiving equity-based incentive compensation; (ii) provide the executive officers with equity ownership in Ultimate commensurate with Ultimate’s performance, as reflected in increased shareholder value; (iii) attract, motivate and retain key employees and non-employee directors by maintaining competitive compensation levels; and (iv) provide an incentive to management for continuous employment with or service to Ultimate.

This philosophy is reflected in an executive compensation package that is generally comprised of three elements (collectively, “Total Compensation”):

- Base salary, which is determined on the basis of the individual’s position and responsibilities with Ultimate;
- Annual incentive awards payable in cash and tied to exceeding specified financial targets; and
- Long-term stock-based incentive compensation in the form of three-year annual vesting Restricted Stock Awards or four-year cliff vesting restricted stock awards that create a link between executive compensation and the long-term interests of Ultimate’s shareholders. We believe the structure of these awards helps reduce the possibility of our NEOs making business decisions that could promote short-term results or individual compensation at the expense of long-term value creation for Ultimate and its shareholders.

Role of the Compensation Committee

The Compensation Committee establishes Total Compensation levels for executives that it believes are competitive with industry compensation practices of other software and technology companies of comparable size. It designs, approves and recommends to the Board, for approval by the independent members of the Board, all compensation of our executive officers, including the form and amount of salary, bonus, and equity-based compensation. It also oversees the administration of our cash-based and equity-based incentive plans, and addresses other compensation matters as the Board may direct from time to time.

The Compensation Committee's charter allows it to delegate certain of its duties to a subcommittee comprised of one or more committee members. It also permits the Compensation Committee to engage a compensation consultant.

Role of our Chief Executive Officer

The Chief Executive Officer provides general guidance and recommendations with respect to compensation for other executive officers to the Compensation Committee for its review. The other executive officers for which the CEO provides general guidance and recommendations include those executive officers who report to him and to the Chief Operating Officer. The CEO reviews their performance at least annually.

Role of Compensation Consultant

The Compensation Committee has engaged Compensia, an independent compensation consulting firm, to review and analyze our executive compensation program. In measuring the effectiveness of our executive compensation arrangements in supporting our business strategy, their reasonableness as compared to the compensation practices of our peer group companies and the alignment they foster with our shareholders. Compensia has periodically advised the Compensation Committee on the following:

- Peer group assessment methodology;
- Trends and regulatory developments for executive compensation;
- The cost and potential dilution to our shareholders of equity incentives relative to our peer group;
- The amendments to and terminations of the CIC Plans discussed herein;
- Risk mitigation and compensation governance matters;
- Disclosures about our executive compensation; and
- Review of independent director pay levels and structures relative to competitive market practices.

While the Compensation Committee takes the input of Compensia into consideration, all of the Compensation Committee’s executive compensation decisions, including the specific amounts paid to our executive officers, are made through the exercise of the Compensation Committee’s own judgment and may reflect factors and considerations supplemental to the information and advice provided by Compensia. The Compensation Committee may replace Compensia or hire additional advisors at any time.

Compensia reports directly to the Compensation Committee and does not provide services to Ultimate's management team other than at the Compensation Committee's request. The Compensation Committee has assessed the independence of Compensia pursuant to SEC rules and NASDAQ listing rules and concluded that the firm’s work does not raise any conflict of interest that prevents Compensia from providing independent advisory services to the Compensation Committee.

The Compensation Committee’s Processes

The Compensation Committee utilizes different processes to assist it in ensuring that Ultimate’s executive compensation program is achieving its objectives. Among those processes are:

Industry Comparison. The Compensation Committee establishes Total Compensation levels for executives that it believes are competitive with industry compensation practices of other software and technology companies of comparable size. The Compensation Committee reviews available information, including information published in secondary sources, regarding prevailing salaries and compensation programs offered to executive officers by businesses that are comparable to Ultimate in terms of size and industry group. Generally, the CEO provides recommendations for other executive officer compensation to the Compensation Committee for its review.

In 2015 in advance of the compensation decisions approved in 2016, the Compensation Committee determined that it was appropriate to review and potentially revise our list of peer group companies to take into account our improved financial position, financial performance growth and market capitalization to review updated peer compensation data. In reviewing the composition of our peer group, the Compensation Committee considered, among other things, companies that were similar to us in terms of one or more of the following factors:

- Primary industry focus on software, especially software-as-a-service ("SaaS");
- Total annual revenues between approximately $228 million and $975 million, which represented multiples of our revenues in the range of approximately 0.4 times to 1.8 times;

- Market capitalization between approximately $2.0 billion and $13.8 billion, which represented multiples of our market capitalization in a range between approximately 0.4 times to 2.7 times (a broader range than the range of revenue multiples to reflect the impact of market volatility); and
- Three-year compound annual growth rate of revenues greater than 15%.

Using these criteria and with the assistance of Compensia, the Compensation Committee determined that our peer group (the "Peer Group") would be comprised of the following companies: Fortinet, Inc., FireEye, Guidewire Software, athenahealth, Inc., Qlik Technologies Inc., CoStar Group, Inc., NetSuite Inc., Workday, Inc., SolarWinds, Inc., Splunk, Tableau Software Inc., Cornerstone OnDemand, Inc., Proofpoint, ServiceNow, and Zillow Group.

Assessment of Ultimate's Performance. The Compensation Committee reviews Ultimate's financial performance on key measures to assist in establishing total compensation ranges. The Compensation Committee may consider various measures of Ultimate's performance, including sales, earnings per share and growth in recurring revenue. The Compensation Committee determinations are based in part on considering such measures collectively. In addition, as described in more detail below, the Compensation Committee may grant performance awards under a formula provided for under the Plan. Such awards shall represent the right to receive a payment, in cash or equity, if corporate performance goals established by the Compensation Committee for a certain performance period are exceeded.

Assessment of Individual Performance. Individual performance has a strong impact on the compensation of all employees, including the executive officers. The members of the Compensation Committee meet with the Chief Executive Officer, and then meet in executive session to evaluate the Chief Executive Officer's performance for the year, when his compensation is being determined. For the other executive officers, the Compensation Committee reviews the compensation recommendations from the Chief Executive Officer and may also exercise its judgment based on the Compensation Committee's assessment of the individual performance of such executive officers.

Elements of the individual performance of Scott Scherr taken into account by the Compensation Committee include his leadership of Ultimate as a whole, his particular leadership in and the results of the sales and marketing function, his strategic focus on maximizing Ultimate's recurring revenue streams and maintaining a strong customer retention, his communications with the Board, employees, customers, shareholders and the investment community and his responsibility for the culture of Ultimate. Elements of the individual performance of Marc Scherr taken into account by the Compensation Committee include his leadership in and results of the product strategy, development, information technology services and total company services offered to Ultimate customers, and his communications with the Board. Elements of the individual performance of Mr. Dauerman taken into account by the Compensation Committee include his leadership of the financial operations of Ultimate and his communications with the Board, the Audit Committee, Ultimate's independent auditors and the investment community. Elements of the individual performance of Mr. Swick taken into account by the Compensation Committee include his leadership of the Enterprise sales team and its operations and his communications with current and prospective customers. Elements of the individual performance of Mr. Rogers taken into account by the Compensation Committee include his leadership of the development team and its operations, his continued knowledge of recent technology and his strategic approaches to future technology.

Components of Executive Compensation for 2016

We believe Ultimate’s compensation programs balance both the mix of cash and equity compensation and the mix of short-term and longer-term compensation in a way that furthers the compensation objectives discussed above. Following is a discussion of the Compensation Committee’s considerations in establishing each of the components for the executive officers.

Base Salary

Base salary is the fixed element of employees’ annual cash compensation. The Compensation Committee annually reviews and determines the base salary of the Chief Executive Officer and the base salaries of the other executive officers based on the recommendations of the Chief Executive Officer. Base salaries are generally adjusted to reflect promotions, increases in responsibilities, competitive market considerations and individual performance. In order to attract and retain qualified executives, Ultimate provides base salaries it considers to be competitive.

While determining the compensation for our NEOs for 2016, including that of our President and Chief Executive Officer, Mr. Scott Scherr, the Compensation Committee reviewed the current compensation and long term incentive compensation of executive officers of certain software and technology companies, including the Peer Group (for base salaries and long term incentive compensation). This information provided the basis of a competitive review of each of our NEO's compensation. However, the Compensation Committee did not attempt to "benchmark" the total compensation, or any element of compensation (including base salary), of any of our NEOs against the total compensation, or any element of compensation (including base salary), paid to executives in the Peer Group. Instead, the Compensation Committee exercised its own judgment based upon Mr. Scherr's performance and, successful leadership of Ultimate, including a business strategy focused on maximizing recurring revenue streams by selling Ultimate's UltiPro Cloud offerings on a recurring revenue basis and maintaining strong customer retention. During the Compensation Committee’s evaluation of Mr. Scherr’s performance as of October 2015, Mr. Scherr stated that he had determined that he would not request or accept an increase in his base salary for fiscal 2016. Therefore, the Compensation Committee did not increase Mr. Scherr’s base salary in 2015 or 2016. Mr. Scott Scherr's base salary also remained consistent at $700,000 for 2017.

The Compensation Committee reviewed with Mr. Scott Scherr the performance of Mr. Marc D. Scherr as Ultimate’s Vice Chairman and Chief Operating Officer in overseeing Ultimate’s strategic and operational activities. Taking into consideration Mr. Scott Scherr’s recommendation and the Compensation Committee's review with him, the Compensation Committee determined that Mr. Marc D. Scherr's base salary would not be increased and remain at $650,000 for fiscal 2016. Mr. Marc D. Scherr's base salary remained consistent at $650,000 for fiscal 2017.

The Compensation Committee also reviewed with Mr. Scott Scherr the performance of Mr. Dauerman as Ultimate’s Chief Financial Officer, including his oversight of financial operations and Ultimate’s relationships with the investment community. Taking into consideration Mr. Scott Scherr’s recommendation and the Compensation Committee's review with him, the Compensation Committee determined that Mr. Dauerman’s base salary would not be increased and remain at $550,000 for fiscal 2016. Mr. Dauerman's base salary remained consistent at $550,000 for fiscal 2017.

The Compensation Committee also reviewed with Mr. Scott Scherr the performance of Mr. Swick as Ultimate’s Chief Enterprise Sales Officer, including his oversight of the Enterprise sales team and Ultimate’s relationships with its current and prospective customers. Taking into consideration Mr. Scott Scherr’s recommendation, and the Compensation Committee's review with him, the Compensation Committee determined that Mr. Greg Swick’s base salary would remain at $250,000 for 2016. Mr. Swick's base salary remained consistent at $250,000 for fiscal 2017. In addition to Mr. Swick's base salary, he received commissions on applicable sales results for fiscal 2016. Mr. Swick earned $405,000 in sales commissions for fiscal 2016.

The Compensation Committee also reviewed with Mr. Scott Scherr the performance of Mr. Rogers as Ultimate’s Chief Technology Officer, including his oversight of the development team, his continued knowledge of the most recent technology and his strategic approaches to future technology. Taking into consideration Mr. Scott Scherr’s recommendation, and the Compensation Committee's review with him, the Compensation Committee determined that Mr. Roger’s base salary would remain consistent at $600,000 for 2016. Mr. Roger's base salary will remain at $600,000 for fiscal 2017.

Incentive Compensation

From time to time, the Compensation Committee approves (i) incentive awards, payable in cash and tied to exceeding annual corporate financial goals (“Cash Bonuses”); and (ii) long-term stock-based incentive compensation ("Stock-Based Compensation") to its executive officers. There is no annual incentive compensation provided to our NEOs for the year if we are at or below our financial goals for the year. Annual incentive compensation is only provided if we exceed our financial goals for the year.

Incentive Awards

The Compensation Committee may grant incentive awards under an annual bonus plan, which shall represent the right to receive a payment in cash if the performance goals established by the Compensation Committee for a performance period are exceeded. At the time an incentive award is granted, the Compensation Committee shall determine, in its sole discretion, the applicable period and goals to be achieved during the period, as well as such other conditions as the Compensation Committee deems appropriate. The Compensation Committee may also determine a target payment amount or a range of payment amounts for each award. The goals applicable to an incentive award grant may be subject to adjustments as the Compensation Committee shall deem appropriate to reflect significant unforeseen events, such as changes in law, accounting practices or unusual or nonrecurring items or occurrences. At the end of the period, the Compensation Committee shall determine the extent to which performance goals have been attained, or a degree of achievement between minimum and maximum levels, in order to establish the level of payment to be made, if any.

In February 2016, the Compensation Committee approved grants of contingent cash bonuses (as provided for in the Plan) to certain members of executive management, including all of our NEOs. Pursuant to this grant, the aggregate amount of the performance awards, subject to the maximum referred to below, was equal to the excess, if any, of (A) Ultimate’s pretax operating income, as reflected in its audited financial statements for the year ended December 31, 2016, adjusted to add back the charges for such performance awards, as well as the charges for non-cash stock-based compensation expense and non-cash amortization of acquired intangible assets, over (B) $161,500,000. The maximum aggregate amount of the performance awards eligible to be granted was $3,000,000, payable to the NEO's and other members of executive management. The respective percentages of their related base salaries for the aggregate performance awards to Mr. Scott Scherr, Mr. Marc D. Scherr, Mr. Mitchell K. Dauerman, Mr. Greg Swick and Mr. Adam Rogers were 10.0%, 9.0%, 9.0%, 9.0% and 9.0%, respectively. The maximum potential aggregate payout to the NEOs was $1.4 million. The remainder of the $3,000,000 was a maximum potential aggregate payout to other members of executive management eligible for performance awards. There was no payout to the NEOs or other members of executive management. Based upon the audited financial statements of Ultimate for the fiscal year ended 2016 and the formula described above, no cash Performance Award was earned for certain members of executive management, including our NEOs.

Long-Term Stock-Based Incentive Compensation

The Compensation Committee's philosophy for long-term stock-based incentive compensation is to align the interests of our NEOs with our long-term strategic direction and the interests of shareholders, and help reduce the possibility of our NEOs making business decisions that could promote short-term results or individual compensation at the expense of long-term value. Therefore, it has been the Compensation Committee's decision to award time-based Restricted Stock Awards to our NEOs (typically annually). During fiscal 2016, the Compensation Committee intended to award Messrs. Scott Scherr, Marc D. Scherr and Mitchell K. Dauerman Restricted Stock Awards for approximately $10.5 million, $7.4 million and $4.2 million, respectively, but these Restricted Stock Awards were waived by Messrs. Scott Scherr, Marc D. Scherr and Mitchell K. Dauerman in light of the modifications made to the CIC Plans (see Change in Control Bonus Plans on pages 30 to 31. During fiscal 2016, the Compensation Committee awarded Restricted Stock Awards to Mr. Greg Swick and Mr. Adam Rogers with three-year annual vesting. We believe this award structure ensures continued focus on the long-term value of Ultimate, helps to retain highly talented executives and aligns their interest with those of our shareholders over the long-term.

The Restricted Stock Awards granted in 2016 were approved by the Compensation Committee following a review of the NEOs long-term accomplishments, including consistent and strong recurring revenue growth, high customer retention, focus on profitability and cash flows. In addition, the Committee intended the awards to recognize the role of our long-tenured executives in increasing the Company's market capitalization from approximately $800 million at the beginning of 2009 to over $6 billion at the end of 2016. The Compensation Committee also reviewed company performance (including relative to peers), individual performance, competitive market data as provided by Compensia and current individual equity ownership and historic equity allocations.

The following table shows the number of awards granted to each NEO for fiscal 2016:

Name and Principal Position	Year	Stock Awards	
Scott Scherr - Chairman of the Board, President and Chief Executive Officer	2016	155,788	(1)
	2016	—	(2)
Marc D. Scherr - Vice Chairman and Chief Operating Officer	2016	155,788	(1)
	2016	—	(2)
Mitchell K. Dauerman - Executive Vice President, Chief Financial Officer and Treasurer	2016	38,947	(1)
	2016	—	(2)
Greg Swick - Senior Vice President, Chief Enterprise Sales Officer	2016	—	(1)
	2016	12,500	(2)
Adam Rogers - Senior Vice President, Chief Technology Officer	2016	—	(1)
	2016	20,000	(2)

(1) Represents shares of Common Stock subject to Restricted Stock Awards granted to the NEOs in 2016 under Restricted Stock Award agreements in connection with the amendment of CIC Plan I. These Restricted Stock Awards have three-year annual vesting. See "Change in Control Bonus Plans" on pages 30 to 31 in this proxy statement.

(2) Includes shares of Common Stock subject to Restricted Stock Awards granted to the executive in 2016 under Restricted Stock Award agreements. These represent time-based Restricted Stock Awards with three-year annual vesting. Messr. Scott Scherr, Marc D. Scherr and Mitchell K. Dauerman, waived approximately $10.5 million, $7.4

million and $4.2 million, respectively, of annual, time-based Restricted Stock Awards which were recommended for approval by the Compensation Committee in October 2016.

Severance Benefits

Except as described below, Ultimate is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment, whether voluntary or involuntary.

Change in Control Bonus Plans

The Board previously adopted two Amended and Restated Change in Control Bonus Plans ("CIC Plans") (first adopted in March 2004). The Change in Control Plan I ("CIC Plan I") provided for the payment of cash amounts to three of Ultimate's NEOs upon a “change in control” of Ultimate as defined in that plan. The Change in Control Plan II ("CIC Plan II") provided for the payment of cash amounts in the event of a “change in control” to the other two NEOs and certain other employees of Ultimate as designated by the Compensation Committee. For purposes of the CIC Plans, a “change in control” would occur (i) if Ultimate were to complete a consolidation or merger pursuant to which the shareholders of Ultimate immediately prior to the merger or consolidation did not have beneficial ownership of 50% or more of the combined voting power of Ultimate’s securities outstanding immediately after the merger or consolidation, (ii) if Ultimate were to sell, lease or transfer all or substantially all of its assets or business or (iii) if beneficial ownership of more than 50% of Ultimate’s Common Stock were acquired by a person or entity other than Ultimate, a subsidiary or an employee benefit plan of Ultimate.

These CIC Plans were adopted initially in 2004 in lieu of granting time-based equity awards to the NEOs and certain other senior officers, which had been earned by such officers. In 2007, these change-in-control plans were amended to increase the limit on aggregate awards under the plans and to increase the NEOs’ respective interests in the CIC Plan I, again, in lieu of granting equity awards which had been previously earned by the NEOs. The amount of the payments to be made to the participants under the CIC Plans is based upon the gross consideration received by Ultimate or its shareholders in the change in control transaction (the “CIC Consideration”). The aggregate amount of payments (including the “gross up” payments described below) that may be made to all participants under the CIC Plans before they were amended could not exceed 6% of the CIC Consideration. To the extent this limit would otherwise be exceeded, the Compensation Committee would reduce payments under CIC Plan I for Ultimate’s three NEOs covered by such plan on a pro-rata basis. In the event such payments were reduced to zero and aggregate payments under the CIC Plans would still exceed 6% of the CIC Consideration, the Committee would reduce one or more other payments under CIC Plan II in its discretion in the manner that it determined to be equitable and appropriate under the circumstances. No amounts were payable under the CIC Plans to any participant whose employment with Ultimate was terminated prior to the consummation of a change in control transaction.

In 2013, the Compensation Committee, along with its independent compensation consultant, began a strategic evaluation of the existing compensation arrangements for the senior officers participating in these change-in-control plans, taking into consideration senior management incentives, the potential costs of such plans and our historical practices with respect to annual equity awards to senior officers. During its review, the Compensation Committee focused on how best to align management incentives with the creation of long-term shareholder value given that a significant amount of potential future compensation to our senior executive officers would be realized only if there was a sale of the Company. The Compensation Committee also considered the size of potential aggregate cash payments that could be due upon a change in control, including the potential significant cost associated with the Federal excise tax “gross-up” provisions under the CIC Plan I. In addition, the Compensation Committee also took into account potential financial and dilution impacts and therefore resolved that the CIC Plans would need to be unwound in a few steps using three-year vesting Restricted Stock Awards to extend retention value instead of our senior executive officers being motivated to sell the Company.

In March 2015, the Board and the Compensation Committee significantly amended the CIC Plan I and terminated the CIC Plan II. These changes reduced the aggregate potential payout under the CIC Plan I from 6% to 3.5% of the CIC Consideration. The individual participant’s interests were reduced from 3.5% to 2.25%. The additional significant potential cost associated with the Federal excise tax “gross-up” provisions under the CIC Plan I was reduced from 2.5% to 1.25% of the CIC Consideration.

In February 2016, the Board and the Compensation Committee further amended the Company’s CIC Plan I. These changes reduced the potential payout under the CIC Plan I from 3.5% to 1.85% of the CIC Consideration. The individual participant’s interests were reduced from 2.25% to 1.125%. The additional significant potential cost associated with the Federal excise tax “gross-up” provisions under the CIC Plan I was reduced from 1.25% to 0.725% of the CIC Consideration.

In February 2017, the Board and the Compensation Committee terminated the Company's CIC Plan I. This termination removed the potential payout under the CIC Plan I of 1.85% of the CIC Consideration. The individual participant's interests were reduced to zero from 1.125%. The additional significant potential cost associated with the Federal excise tax "gross-up" provisions under the CIC Plan I was reduced to zero from 0.725% of the CIC Consideration. Assuming an aggregate market value of $6 billion, we believe the termination of the CIC Plan I has resulted in a permanent cost savings to shareholders of approximately $150 million relating to the Federal excise tax "gross-up" provisions.

The CIC Plans required providing participants with substantially equivalent value in exchange for the reduction of participant interests. The equity that was issued to unwind the CIC Plans was comparable to the percentage of equity that would have been issued and would have been part of the normal annual compensation in 2004 and 2007 if time-based equity had been issued at that time. The equity was issued in the form of three-year Restricted Stock Awards to retain investor alignment.

In October 2016, the Compensation Committee intended to award Messrs. Scott Scherr, Marc Scherr and Mitchell Dauerman an aggregate of 105,000 Restricted Stock Awards with an estimated value of $22.1 million for their 2016 performance (discussed below). In light of the modifications to the Change in Control Plans Mr. Scott Scherr, Mr. Marc D. Scherr and Mr. Mitchell K. Dauerman, waived these awards representing approximately $10.5 million, $7.4 million and $4.2 million of value, respectively.

Termination of the Change in Control Bonus Plans for Officers and Employees

In connection with the ongoing review of executive compensation, on February 6, 2017, our Board of Directors approved the termination of the CIC Plan I and all remaining awards that were outstanding under the CIC Plan I. Pursuant to the terms of the CIC Plan I, in connection with the termination of these awards, the Company was required to provide each of the participants with an arrangement of comparable value as determined by our Compensation Committee in good faith. The comparable value was provided to the participants in the CIC Plan I in the form of grants of restricted stock. In connection with its determination to use restricted stock grants for this purpose, the Compensation Committee considered the management retention incentives associated with restricted stock that vests over a period of time. Mr. Scott Scherr was awarded a Restricted Stock Award of 157,270 shares of the Company’s Common Stock with a date of grant of February 10, 2017. Mr. Marc D. Scherr was awarded 157,270 shares of the Company’s Common Stock with a date of grant of February 10, 2017. Mr. Mitchell K. Dauerman was awarded 39,317 shares of the Company’s Common Stock with a date of grant of February 10, 2017. Each of these Restricted Stock Awards vests one-third on each of the following dates: February 10, 2018, February 10, 2019 and February 10, 2020, assuming continued employment with the Company as of such dates and subject to accelerated vesting in the event of a change in control or termination of employment due to death or disability. Based on an assumed stock price of $195.61, the closing price of the Company’s Common Stock on February 10, 2017, the value of the Restricted Stock Awards granted to Mr. Scott Scherr, Mr. Marc D. Scherr and Mr. Mitchell K. Dauerman would be approximately $30.8 million, $30.8 million and $7.7 million, respectively. The Restricted Stock Awards were granted under our Amended and Restated 2005 Equity and Incentive Plan.

On March 6, 2015, we terminated our CIC Plan II. Two of our NEOs, Mr. Adam Rogers and Mr. Greg Swick, along with six other officers of the Company, had been participants in the CIC Plan II and had received awards under that plan which would have entitled each of them to receive cash payments upon a “change in control” of the Company. Pursuant to the terms of the CIC Plan II, in connection with canceling these awards, the Company was required to provide each of the participants with an arrangement of comparable value as determined by the Compensation Committee in good faith. The comparable value was provided to the participants in the CIC Plan II in the form of grants of restricted stock. In connection with its determination to use restricted stock grants for this purpose, the Compensation Committee considered the management retention incentives and the alignment with shareholders associated with restricted stock that vests over a period of time. Mr. Adam Rogers was awarded a restricted stock award of 14,429 shares of the Company’s Common Stock, valued at approximately $2.3 million as of the date of grant. Mr. Greg Swick was awarded a restricted stock award of 13,789 shares of the Company’s Common Stock, valued at approximately $2.2 million as of the date of grant. Each of these Restricted Stock Awards vests one-third on each of the following dates: February 11, 2016, February 11, 2017 and February 11, 2018 assuming continued employment with the Company as of such dates and subject to accelerated vesting in the event of a change in control or termination of employment due to death or disability. In addition to the awards to Messrs. Rogers and Swick, Restricted Stock Awards of an aggregate of 72,239 shares of the Company’s Common Stock were made to other senior officers who had been participants in CIC Plan II. The Restricted Stock Awards were granted under our Amended and Restated 2005 Equity and Incentive Plan.

The Board of Directors does not have any current plans to establish new change in control plans.

Accelerated Vesting

In addition to the severance provisions described above, Ultimate’s Stock-Based Compensation for our executive officers is subject to accelerated vesting under certain circumstances described below.

Stock Options. Ultimate's stock options issued to the executive officers pursuant to the Plan ordinarily vest 25% on the date of grant and 25% on each of the first three anniversaries of the date of grant, subject to each executive officer's continued employment with Ultimate. However, pursuant to the terms of the Nonqualified Stock Option Award Agreements entered into between Ultimate and the executive officers under the Plan, in the event of death, disability or a change in control of Ultimate (each, an "Accelerated Vesting Occurrence"), each executive officer's unvested stock options under the Plan would immediately vest and become fully exercisable. There are no exercisable stock options held by any NEO as of December 31,

2016. All exercisable stock options held by Ultimate's directors were fully vested as of December 31, 2016 as a result of the passage of time.

Restricted Stock Awards. Ultimate's shares of restricted stock issued pursuant to the Plan are a combination of restricted stock that vest 100% on the fourth anniversary of the date of grant, subject to each executive officer's continued employment with Ultimate and restricted stock that vests in three equal annual installments, subject to each executive officer's continued employment with the Company or any of its subsidiaries. However, pursuant to the terms of the Restricted Stock Award Agreements entered into between Ultimate and the executive officers under the Plan, in the event of an Accelerated Vesting Occurrence, each executive officer's shares of unvested restricted stock would immediately vest. Assuming that there was an Accelerated Vesting Occurrence on December 31, 2016, the unvested shares of restricted stock held by Messrs. Scott Scherr, Marc D. Scherr, Mitchell K. Dauerman, Greg Swick and Adam Rogers would have automatically vested and they would have been entitled to receive amounts equal to the value of $70.1 million, $49.5 million, $19.0 million, $8.5 million and $10.3 million, respectively, as a result of such acceleration. These amounts are derived from the per share Year End Fair Market Value (as defined below) of the Common Stock multiplied by the number of shares being accelerated. In addition, pursuant to the terms of the Restricted Stock Award Agreements entered into between Ultimate and the executive officers under the Plan, in the event an executive officer's employment is terminated by Ultimate without cause (a "Termination Without Cause Occurrence"), that portion of such then outstanding unvested restricted shares multiplied by the number of complete months of continued employment by the executive officer with Ultimate following the applicable dates of grant would immediately vest. Assuming that there was a Termination Without Cause Occurrence on December 31, 2016, a portion of the unvested shares of restricted stock held by Messrs. Scott Scherr, Marc D. Scherr, Mitchell K. Dauerman, Greg Swick and Adam Rogers would have automatically vested on a pro-rated basis as described above and they would have been entitled to receive amounts equal to the value of $29.5 million, $19.6 million, $8.5 million, $3.0 million and $3.1 million, respectively, as a result of such acceleration. These amounts are derived from the per share fair market value of the Common Stock, at the closing price of the Common Stock on NASDAQ on the last trading day of 2016 (the "Year End Fair Market Value") multiplied by the pro-rated number of shares being accelerated.

Other Compensation Policies and Information

Tax Deductibility of Executive Compensation

In general, Section 162(m) of the Code disallows a deduction for any compensation paid in excess of $1 million during a calendar year to any of Ultimate's NEOs as determined pursuant to the executive compensation disclosure rules under the Exchange Act (other than the principal financial officer). An exemption from this limitation applies to "performance-based compensation." The Compensation Committee does not have a formal policy with respect to granting compensation that qualifies as performance-based compensation. The Compensation Committee also recognizes the need to retain flexibility to make compensation decisions that may not meet Section 162(m), even if Ultimate may not deduct all of the compensation. For 2016, a significant portion of the compensation paid to Ultimate's NEOs was not deductible pursuant to the limitations of Section 162(m).

Employee Benefits

Ultimate offers core employee benefits coverage in order to provide our workforce with a reasonable level of financial support in the event of illness or injury and to enhance productivity and job satisfaction through programs that focus on work/life balance.

The benefits available are the same for all U.S. employees and executive officers and include medical and dental coverage, disability insurance, and life insurance. In addition, our 401(k) Plan provides a reasonable level of retirement income reflecting employees' careers with Ultimate. All U.S. employees, including executive officers, participate in these plans.

The cost of post-employment benefits is partially borne by the employee, including each executive officer.

Stock Ownership Guidelines

In March 2014, the Board adopted guidelines with respect to ownership levels of Ultimate's Common Stock by our CEO and members of our Board to further align their interests with those of our shareholders. These guidelines state that our CEO and each director must beneficially own Common Stock having a value equal to:

- For our CEO, five times his annual base salary; and

- For each non-employee director, three times the amount of the annual cash retainer paid to directors or, if no cash retainer is paid to non-employee directors, the cash equivalent value of the annual retainer paid to non-employee members of our Board in the form of restricted shares of Common Stock or other equity.

Anti-hedging and pledging Policy

In March 2014, the Board adopted a policy that prohibits our executive officers and directors from engaging in short sales, transactions in put or call options, hedging and pledging transactions or other inherently speculative transactions with respect to our Common Stock. We adopted this policy as a matter of good corporate governance, and because short-term or speculative transactions in our securities may lead to inadvertent violations of applicable law. Our pledging policy allows for limited pre-approved exceptions for the use of the Company's securities as collateral for a loan (not including margin debt) and where the pledgor clearly demonstrates the financial capacity to repay the loan without resort to the pledged securities. The shares pledged cannot exceed 20% of the shares owned by the applicable executive officer or director.

Executive Compensation Recovery ("Clawback") Policy

In March 2014, the Board adopted an executive compensation recovery, or "clawback" policy requiring our Board, or a committee of the Board to seek, subject to certain exceptions, the reimbursement of excess incentive-based cash compensation provided to our executive officers in the event of certain restatements of our published financial statements. The policy allows Ultimate to clawback incentive-based cash compensation from executive officers who were actually involved in intentional or unlawful misconduct that triggered the accounting restatement to the extent the cash compensation was in excess of what would have been paid under the accounting restatement. This policy is applicable to all incentive-based cash compensation paid after implementation of the policy, and it covers the three-year period preceding the date on which Ultimate is required to prepare an accounting restatement. This policy will be amended to comply with the final regulations under the Dodd-Frank Wall Street Reform Act if they are adopted by the SEC.

Perquisites

Ultimate does not provide significant perquisites or personal benefits to executive officers.

Summary Compensation Table

The following table sets forth information, for the fiscal years ended December 31, 2016, 2015 and 2014, regarding the aggregate compensation we paid to our NEOs:

Name and Principal Position	Year	($) Salary	($) Bonus (1)	($) Stock Awards (2)	($) Option Awards (3)	($) Non-Equity Incentive Compensation	($) All Other Compensation (4)	($) Total
Scott Scherr - Chairman of the Board, President and Chief Executive Officer	2016	$700,000	$ —	$24,321,623	$ —	$ —	$ 7,200	$25,028,823
	2015	700,000	186,987	37,449,707	—	—	6,300	38,342,994
	2014	700,000	67,380	11,444,250	—	—	6,125	12,217,755
Marc D. Scherr - Vice Chairman and Chief Operating Officer	2016	$650,000	$ —	$24,321,623	$ —	$ —	$ 7,200	$24,978,823
	2015	650,000	168,288	15,604,072	—	—	6,300	16,428,660
	2014	650,000	64,282	7,629,500	—	—	6,125	8,349,907
Mitchell K. Dauerman - Executive Vice President, Chief Financial Officer and Treasurer	2016	$550,000	$ —	$6,080,406	$ —	$ —	$ 7,200	$6,637,606
	2015	550,000	168,288	9,362,345	—	—	6,300	10,086,933
	2014	550,000	64,282	3,051,800	—	—	6,125	3,672,207
Greg Swick - Senior Vice President, Chief Enterprise Sales Officer	2016	$654,805	$ —	$2,632,375	$ —	$ —	$ 7,200	$3,294,380
	2015	650,310	168,288	4,791,341	—	—	6,300	5,616,239
	2014	586,356	64,282	1,907,375	—	—	6,125	2,564,138
Adam Rogers - Senior Vice President, Chief Technology Officer	2016	$600,000	$ —	$4,211,800	$ —	$ —	$ 7,200	$4,819,000
	2015	600,000	168,288	5,405,255	—	—	6,300	6,179,843
	2014	600,000	64,282	1,907,375	—	—	6,125	2,577,782

(1) In February 2017, the Compensation Committee did not approve grants of contingent cash incentive Awards (as defined in the Plan and described above) to be paid out in connection with certain corporate financial goals established in February 2016. None of our NEOs received a cash incentive Award for 2016.

(2) Includes shares of Common Stock subject to Restricted Stock Awards granted to the executive in 2016, 2015 and 2014 under Restricted Stock Award agreements. All shares granted were granted at the grant date fair value in accordance with ASC 718. The total number of restricted shares of Common Stock issued to Messrs. Scott Scherr, Marc D. Scherr,

Mitchell K. Dauerman, Greg Swick and Adam Rogers in 2016, 2015 and 2014 were as follows: (i) for Mr. Scott Scherr, the aggregate number of Restricted Shares of Common Stock subject to Restricted Stock Awards under Restricted Stock Award Agreements Issued (the "RSAs Issued") for 2016 was 155,788, with a grant date fair value of $24.3 million. These shares were issued in connection with the modifications made to the CIC Plan I. The aggregate number of RSAs Issued in 2015 was 230,318, with a grant date fair value of $37.4 million. These shares were issued in connection with the modifications made to the CIC Plan I. The aggregate number of RSAs Issued in 2014 was 75,000, with a grant date fair value of $11.4 million; (ii) for Mr. Marc D. Scherr, the aggregate number of RSAs Issued for 2016 was 155,788, with a grant date fair value of $24.3 million. These shares were issued in connection with the modifications made to the CIC Plan I. The aggregate number of RSAs Issued in 2015 was 95,966, with a grant date fair value of $15.6 million. These shares were issued in connection with the modifications made to the CIC Plan I. The aggregate number of RSAs Issued in 2014 was 50,000, with a grant date fair value of $7.6 million; (iii) for Mr. Mitchell K. Dauerman, the aggregate number of RSAs Issued for 2016 was 38,947, with a grant date fair value of $6.1 million. These shares were issued in connection with the modifications made to the CIC Plan I. The aggregate number of RSAs Issued in 2015 was 57,579, with a grant date fair value of $9.4 million. These shares were issued in connection with the modifications made to the CIC Plan I. The aggregate number of RSAs Issued in 2014 was 20,000, with a grant date fair value of $3.1 million; (iv) for Mr. Greg Swick, the aggregate number of RSAs Issued for 2016 was 12,500, with a grant date fair value of $2.6 million. The aggregate number of RSAs Issued in 2015 was 13,789, with a grant date fair value of $2.2 million. These shares were issued in connection with the termination of the CIC Plan II. The aggregate number of RSAs Issued representing annual time-based awards was 12,500 for 2015, with a grant date fair value of $2.5 million. The aggregate number of RSAs Issued in 2014 was 12,500, with a grant date fair value of $1.9 million; (v) for Mr. Adam Rogers, the aggregate number of RSAs Issued for 2016 was 20,000, with a grant date fair value of $4.2 million. The aggregate number of RSAs Issued for 2015 was 14,429, with a grant date fair value of $2.3 million. These shares were issued in connection with the termination of the CIC Plan II. The aggregate number of RSAs Issued representing annual time-based awards was 15,000 for 2015, with a grant date fair value of $3.1 million. The aggregate number of RSAs Issued in 2014 was 12,500, with a grant date fair value of $1.9 million. The restricted shares granted in 2015 in connection with the modifications made to the CIC Plan I and with the termination of the CIC Plan II, each vest in three equal annual installments on February 11, 2016, February 11, 2017 and February 11, 2018, subject to the participant's continued employment with the Company 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 (as defined in the Plan), the executive's death or disability or the termination of the executive's employment by Ultimate without cause. The restricted shares granted in 2014, 2015 and 2016 vest in three equal annual installments on each of the first three anniversaries of the date of grant thereof, subject to the participant's continued employment with the Company 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 (as defined in the Plan), the executive's death or disability or the termination of the executive's employment by Ultimate without cause. A discussion of the assumptions used in calculating these values may be found in Note 15 of Ultimate's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 24, 2017. See "Change in Control Bonus Plans" on pages 30 to 31 in this proxy statement for additional information regarding the RSAs Issued in connection with the termination of the CIC Plan I, modifications made to the CIC Plan I and the termination of the CIC Plan II.

(3) There were no option awards granted in 2016, 2015 or 2014.

(4) Consists of contributions to Ultimate's 401(k) Plan on behalf of the executive officers indicated.

Total CEO Compensation Excluding Change in Control Awards

The graph below illustrates the amount of total normal annual compensation earned by our CEO in 2016 as compared to 2015 and 2014 excluding the payment made in light of the modifications of the CIC Plan I in March 2015 and February 2016 (1):

---

(1) Total normal annual compensation earned by our CEO in 2015 and 2016 decreased from the total compensation earned in 2014. There were no awards granted under the annual time-based award program in 2015 or 2016.

(2) Stock awards granted in 2014 represent annual time-based awards.

(3) There were no annual time-based awards issued to our CEO in 2015 nor 2016. In October 2015 and again in October 2016, the Compensation Committee intended to award Mr. Scott Scherr an aggregate of 50,000 Restricted Stock Awards for his 2015 and 2016 performance, respectively. In light of the modifications to the CIC Plan I (discussed above), Mr. Scott Scherr informed the Compensation Committee prior to grant that he waived the opportunity to receive this award representing approximately $8.1 million and $10.5 million of value in 2015 and 2016, respectively.

Grants of Plan-Based Awards in 2016

The following table provides information concerning the Stock Based Compensation awards and cash bonus awards made to the NEOs in fiscal 2016 under the Plan.

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)				
Name	Grant Date	Compensation Committee Action Date	Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value ($)
Scott Scherr	2/8/2016	2/1/2016	$—	$—	$300,000	155,788	$24,321,623
Marc D. Scherr	2/8/2016	2/1/2016	$—	$—	$270,000	155,788	$24,321,623
Mitchell K. Dauerman	2/8/2016	2/1/2016	$—	$—	$270,000	38,947	$6,080,406
Greg Swick	11/4/2016	10/26/2016	$—	$—	$270,000	12,500	$2,242,091
Adam Rogers	11/4/2016	10/26/2016	$—	$—	$270,000	20,000	$4,211,800

(1) These columns show the threshold and maximum payouts under the Plan for cash performance awards. The Awards do not provide for any target amount. For a description of these performance awards, see “Compensation Discussion and Analysis – Incentive Compensation – Incentive performance awards.”

Ultimate has no employment agreements with its executive officers.

The material factors necessary to understand each of the awards listed in the Grants of Plan-Based Awards in the 2016 table are discussed in detail above under "Compensation Discussion and Analysis — Incentive Compensation".

Outstanding Equity Awards at 2016 Fiscal Year-End

The following table sets forth, for Ultimate's NEOs, certain information concerning unexercised Stock Options; restricted stock that has not vested; and equity incentive plan awards as of the end of Ultimate's last completed fiscal year:

Name	Option Awards Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date	Stock Awards Number of Shares or Units That Have Not Vested (#)	Market Value of Shares That Have Not Vested ($) (7)	Vest Date of Stock and Unit Awards	
Scott Scherr	—	—	—	—	50,000	$9,117,500	11/6/2017	(1)
	—	—	—	—	25,000	4,558,750	11/6/2017	(2)
	—	—	—	—	153,546	27,999,113	Various	(3)
	—	—	—	—	155,788	28,407,942	Various	(4)
Marc D. Scherr	—	—	—	—	35,000	$6,382,250	11/6/2017	(1)
	—	—	—	—	16,667	3,039,227	11/6/2017	(2)
	—	—	—	—	63,978	11,666,388	Various	(3)
	—	—	—	—	155,788	28,407,942	Various	(4)
Mitchell K. Dauerman	—	—	—	—	20,000	$3,647,000	11/6/2017	(1)
	—	—	—	—	6,667	1,215,727	11/6/2017	(2)
	—	—	—	—	38,386	6,999,687	Various	(3)
	—	—	—	—	38,947	7,101,985	Various	(4)
Greg Swick	—	—	—	—	12,500	$2,279,375	11/6/2017	(1)
	—	—	—	—	4,167	759,852	11/6/2017	(2)
	—	—	—	—	9,193	1,676,344	Various	(3)
	—	—	—	—	8,334	1,519,705	Various	(5)
	—	—	—	—	12,500	2,279,375	Various	(6)
Adam Rogers	—	—	—	—	12,500	$2,279,375	11/6/2017	(1)
	—	—	—	—	4,167	759,852	11/6/2017	(2)
	—	—	—	—	9,620	1,754,207	Various	(3)
	—	—	—	—	10,000	1,823,500	Various	(5)
	—	—	—	—	20,000	3,647,000	Various	(6)

(1) The restricted stock grant fully vests on the fourth anniversary of the date of grant subject to accelerated vesting in the event of a "change in control" of Ultimate (as defined in the Plan), the executive's death or disability or termination of the executive's employment by Ultimate without cause.

(2) The restricted stock grant vests on November 6, 2017, subject to the Participant's continued employment with the Company or any of its Subsidiaries on each such vesting date subject to accelerated vesting in the event of a "change in control" of Ultimate (as defined in the Plan), the executive's death or disability or termination of the executive's employment by Ultimate without cause.

(3) The restricted stock grant vests in two equal annual installments on February 11, 2017 and February 11, 2018, subject to the Participant's continued employment with the Company or any of its Subsidiaries on each such vesting date subject to accelerated vesting in the event of a "change in control" of Ultimate (as defined in the Plan), the executive's death or disability or termination of the executive's employment by Ultimate without cause. These awards were granted in connection with the amended CIC Plans (see discussion on pages 30 to 31 of this proxy statement under "Change in Control Bonus Plans").

(4) The restricted stock grant vests in three equal annual installments on February 8, 2017, February 8, 2018 and February 8, 2019, subject to the Participant's continued employment with the Company or any of its Subsidiaries on each such

vesting date subject to accelerated vesting in the event of a "change in control" of Ultimate (as defined in the Plan), the executive's death or disability or termination of the executive's employment by Ultimate without cause. These awards were granted under the amended CIC Plans (see discussion on pages 30 to 31 of this proxy statement under "Change in Control Bonus Plans").

(5) The restricted stock grant vests in two equal annual installments on November 5, 2017 and November 5, 2018, subject to the Participant's continued employment with the Company or any of its Subsidiaries on each such vesting date subject to accelerated vesting in the event of a "change in control" of Ultimate (as defined in the Plan), the executive's death or disability or termination of the executive's employment by Ultimate without cause.

(6) The restricted stock grant vests in three equal annual installments on November 4, 2017, November 4, 2018 and November 4, 2019, subject to the Participant's continued employment with the Company or any of its Subsidiaries on each such vesting date subject to accelerated vesting in the event of a "change in control" of Ultimate (as defined in the Plan), the executive's death or disability or termination of the executive's employment by Ultimate without cause.

(7) The market value of the unvested equity incentive plan awards was calculated based on the closing market price of Ultimate's stock at the end of the last completed fiscal year. The closing price of Ultimate's stock on NASDAQ on December 31, 2016, the last trading day of 2016, was $182.35.

Option Exercises and Stock Vested in 2016

The following table sets forth, for Ultimate's NEOs, certain information concerning each exercise of stock options, and each vesting of stock, including restricted stock, stock units and similar instruments, during the last completed fiscal year:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) (1)
Scott Scherr	—	$ —	201,772	$38,284,060
Marc D. Scherr	—	$ —	123,655	$24,287,564
Mitchell K. Dauerman	—	$ —	65,860	$12,817,681
Greg Swick	—	$ —	37,929	$7,735,607
Adam Rogers	—	$ —	38,976	$7,944,423

(1) Amounts reflect the fair market value on the date of vesting. Messrs. Scott Scherr, Marc D. Scherr and Mitchell K. Dauerman had awards vest on February 11, 2016 and November 6, 2016. Messrs. Greg Swick and Adam Rogers had Restricted Stock Awards vest on February 11, 2016, November 5, 2016 and November 6, 2016. The closing prices of Ultimate's stock on NASDAQ on February 11, 2016, November 5, 2016 and November 6, 2016 were $155.79, $210.59, and $210.59, respectively.

Relationship between Compensation Policies and Risk Management

Ultimate's management has reviewed Ultimate's compensation policies and practices for all employees and does not believe that there are any risks arising from such compensation policies and practices that are reasonably likely to have a material adverse effect on Ultimate.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with Ultimate's management the disclosure set forth under the heading "Compensation Discussion and Analysis" above in this Proxy Statement. Based on such review and discussions, the Compensation Committee has recommended to the Board that such "Compensation Discussion and Analysis" be included in this Proxy Statement.

LeRoy A. Vander Putten, Chairman
Rick A. Wilber
Robert A. Yanover
Alois T. Leiter
James A. FitzPatrick, Jr.
Members of the Compensation Committee

39

AUDIT COMMITTEE REPORT

The Audit Committee is composed of three non-employee directors, Messrs. Robert A. Yanover (Chairman), LeRoy A. Vander Putten and Rick A. Wilber. The Audit Committee oversees Ultimate's financial reporting process on behalf of the Board, reviews the independence of Ultimate's auditors and fulfills the other responsibilities provided for in its charter. The Audit Committee has sole authority to appoint the independent auditors and terminate their engagement.

Management is responsible for Ultimate's consolidated financial statements, systems of internal control and the financial reporting process. Ultimate's independent registered public accounting firm, KPMG LLP, is responsible for performing an independent audit of Ultimate's consolidated financial statements and expressing an opinion on the conformity of those consolidated financial statements with generally accepted accounting principles. In addition, KPMG was responsible for expressing an opinion on Ultimate's internal control over financial reporting based on their audit as of December 31, 2016. The Audit Committee's responsibility is to monitor and oversee these processes.

The Audit Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention it deems necessary or appropriate to fulfill its oversight responsibilities under the Audit Committee's charter. To carry out its responsibilities, the Audit Committee held five meetings during fiscal 2016.

The Audit Committee hereby reports as follows:

1) The Audit Committee reviewed and discussed the audited consolidated financial statements with management and has met with the independent registered public accounting firm, KPMG LLP, with and without management present, to discuss the results of their fiscal 2016 audit and quarterly reviews, their evaluation of Ultimate's internal controls, and the overall quality of Ultimate's financial reporting.

2) The Audit Committee discussed with KPMG LLP the matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board (PCAOB).

3) The Audit Committee reviewed the written disclosures and the letter received from KPMG LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and discussed with KPMG LLP that firm's independence from Ultimate and its management, including whether the independent auditor's provision of audit-related services to Ultimate are compatible with maintaining their independence.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board that Ultimate's audited consolidated financial statements as of and for the year ended December 31, 2016 be included in Ultimate's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for filing with the SEC, which occurred on February 24, 2017.

Robert A. Yanover, Chairman
LeRoy A. Vander Putten
Rick A. Wilber
Members of the Audit Committee

KPMG LLP FEES

The following table presents fees for professional services rendered by Ultimate’s independent registered public accounting firm, KPMG LLP, for the audit of Ultimate’s annual consolidated financial statements and internal controls over financial reporting for the years ended December 31, 2016 and 2015, together with fees billed for other services rendered by KPMG LLP during those periods.

	2016	2015
Audit Fees (1)	$755,000	$575,000
Audit-Related Fees (2)	517,515	390,456
Tax Fees (3)	—	—
All Other Fees (4)	—	—
Total Fees	$1,272,515	$965,456

(1) Consists of the aggregate fees and expenses incurred for the audits of Ultimate’s consolidated financial statements in Form 10-K for fiscal years 2016 and 2015 and the reviews of Ultimate’s 2016 and 2015 quarterly reports on Forms 10-Q. The audit fees for the years ended December 31, 2016 and 2015 also include fees for services rendered in connection with Section 404 of the Sarbanes-Oxley Act for internal controls audit work, fees for audit procedures over Ultimate's adoption and transition to the COSO 2013 Internal Control - Integrated Framework as part of its evaluation of the effectiveness of ICOFR for SEC regulatory reporting purposes, and audit services related to acquisitions.

(2) Consists of fees incurred during 2016 and 2015 for assurance related services performed on management’s descriptions of its systems and the suitability of the design and operating effectiveness of controls surrounding UltiPro and UltiPro services.

(3) There were no fees incurred for tax compliance services during 2016 or 2015.

(4) Consists of the aggregate fees for products and services provided by KPMG LLP that were not reported above under “Audit Fees,” “Audit-Related Fees,” or “Tax Fees.” Ultimate did not purchase any other products or services from KPMG LLP during 2016 or 2015.

Audit Committee Pre-approval of Audit and Permissible Non-Audit Services of Independent Auditors

Consistent with the SEC requirements regarding auditor independence, the Audit Committee has adopted a policy to pre-approve services to be performed by Ultimate’s principal independent auditor prior to commencement of the specified service. Under the policy, the Audit Committee must pre-approve the provision of services by Ultimate’s principal auditor prior to commencement of the specified service. The requests for pre-approval are submitted to the Audit Committee by the Chairman of the Board, President and Chief Executive Officer, the Chief Financial Officer, or a designee of either with a statement as to whether, in their view, the request is consistent with the SEC rules on auditor independence. All of the services performed by KPMG LLP during 2016 and 2015 were pre-approved by the Audit Committee.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Vivian Maza, our Senior Vice President, Chief People Officer and Secretary, shares a household with Scott Scherr, our Chairman of the Board, President and Chief Executive Officer. Ms. Maza received total compensation of $3,139,575 in 2016 for her services in those roles during our 2016 fiscal year. Since January 1, 2017 through March 31, 2017, Ms. Maza received total compensation of $141,815 for her services.

Jason Dorsey is standing for election to our Board for the first time at the 2017 Annual Meeting. The Board concluded that Mr. Dorsey is a non-independent director under the NASDAQ rules. Mr. Dorsey is Co-founder of TCGK. TCGK is a leading Millennials and Generation Z research, speaking, and strategy firm in the U.S. TCGK provided research and speaking services to Ultimate during our 2016 fiscal year and we paid approximately $135,500 to TCGK for those services. There have been no payments from Ultimate since January 1, 2017 through March 31, 2017, to TCGK.

On October 24, 2011, the Board adopted a written policy setting forth procedures for the review and approval or ratification of related party transactions. The policy covers all transactions between Ultimate and any related party involving or expected to involve more than $120,000 in the aggregate in any calendar year. Under the policy, a related party includes any current or former executive officer, director or director nominee, any person or group with greater than a 5% beneficial ownership of Ultimate's voting securities or any immediate family member of the foregoing.

The policy provides that the Audit Committee review the material facts of any related party transaction in order to approve such transaction. If prior approval is not feasible, then such transaction must be ratified by the Audit Committee at its next regularly scheduled meeting or be rescinded. In making its determination, the Audit Committee considers (i) the extent of the related party's interest in the related party transaction, (ii) if applicable, the availability of other sources of comparable products or services, (iii) whether the terms of the related party transaction are no less favorable than terms generally available in unaffiliated transactions under like circumstances, (iv) the benefit to Ultimate and (v) the aggregate value of the related party transaction. Certain transactions, such as otherwise pre-approved compensation to an executive officer or director or transactions in which charges or rates are fixed by law or determined through a competitive bidding process, are deemed not to be related party transactions.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

For the year ended December 31, 2016 the Company did not have any compensation committee interlocks or insider participation.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires Ultimate's executive officers and directors and persons who beneficially own more than 10% of Ultimate's Common Stock to file initial reports of ownership and reports of changes in ownership with the SEC. Such executive officers, directors and greater than 10% beneficial owners are required by the regulations of the SEC to furnish Ultimate with copies of all Section 16(a) reports they file. Acting pursuant to powers of attorney, our employees generally prepare these reports on the basis of information obtained from each director and officer. Based solely on a review of the copies of such reports furnished to Ultimate and written representations from the executive officers and directors, Ultimate believes that all Section 16(a) filing requirements applicable to its executive officers and directors and greater than 10% beneficial owners were met during 2016.

SHAREHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING OF SHAREHOLDERS

Under the rules of the SEC, any proposal by a shareholder to be presented at the 2018 Annual Meeting of Shareholders and to be included in Ultimate's Proxy Statement for such meeting must be received at Ultimate's principal corporate office at 2000 Ultimate Way, Weston, Florida 33326, no later than the close of business on December 6, 2017. Proposals should be sent to the attention of the Secretary of Ultimate. Any such shareholder proposal must comply with the applicable rules of the SEC.

Under Ultimate’s By-laws, proposals of shareholders not included in the proxy materials may be presented at the 2018 Annual Meeting of Shareholders only if Ultimate’s Secretary has been notified of the nature of the proposal and is provided certain additional information at least sixty days but not more than ninety days prior to April 5, 2018, the first anniversary of the Proxy Statement in connection with the 2017 Annual Meeting of Shareholders (subject to exceptions if the 2017 Annual Meeting is advanced by more than thirty days and the proposal is a proper one for shareholder action). In addition, the Board recently adopted proxy access, which allows a shareholder or group of up to twenty shareholders who have owned at least 3% of Ultimate’s Common Stock for at least three years to submit director nominees (up to the greater of two Directors or 20% of the Board) for inclusion in our proxy materials if the shareholder(s) provide timely written notice of such nomination(s) and the shareholder(s) and the nominee(s) satisfy the requirements specified in our By-laws. To be timely for inclusion in Ultimate’s proxy materials for the 2018 Annual Meeting of Shareholders, notice must be received by the Corporate Secretary at Ultimate’s principal corporate offices at the above address no earlier than the close of business on November 6, 2017, and no later than the close of business on December 6, 2017. The notice must contain the information required by Ultimate’s By-laws, and the shareholder(s) and nominee(s) must comply with the information and other requirements in our By-laws relating to the inclusion of shareholder nominees in Ultimate’s proxy materials. Shareholders may request a copy of the By-law provisions discussed above from Corporate Secretary at the address above.

OTHER MATTERS

Financial Statements

A copy of Ultimate’s Annual Report on Form 10-K, for the year ended December 31, 2016, is available on Ultimate’s website, www.ultimatesoftware.com.

Other

Ultimate is not aware of any other matters that may come before the Annual Meeting. If other matters are properly presented at the Annual Meeting, it is the intention of the persons named as proxies in the enclosed proxy to vote in accordance with their best judgment.

By Order of the Board of Directors:
Vivian Maza
Secretary

Weston, Florida
April 5, 2017