

2012 ANNUAL REPORT



People first.

People first.

Ultimate
SOFTWARE



Letter to Our Shareholders



Fellow Shareholders,

2012 was another good year for Ultimate. We executed on our business plan and laid a solid foundation for achieving our goal to surpass \$400 million in total revenues in 2013. Our 2012 total revenues climbed to a record-high of \$332 million, a 23% increase over 2011. Our 2012 recurring revenues increased 25% compared with 2011, reaching a record \$266 million, and were 80% of total revenues. At the same time, our 2012 non-GAAP operating income was up by 57% to \$49.5 million, and we expanded our product capabilities for global, mobile talent management and extended our business ecosystem through strategic partnerships.

Once again in 2012, we maintained our customer retention rate above 96%, and we strengthened our customer relationships. In a customer survey completed the fourth quarter of 2012, we had the largest percentage in our history of customers selecting the highest rating on the satisfaction scale to describe their relationship with us. We are pleased that our customers remain such powerful allies for us in the sales cycle and in the HR community at large.

Based upon our total number of cloud customers (2,500+ companies) and the number of people records handled in our cloud environment (10,000,000+ at the close of 2012), we believe that Ultimate has the largest customer base in the market today using a cloud-based, unified human capital management (HCM) solution that includes payroll, human resources, comprehensive talent management, and time management. Our market share in our Enterprise sector (those businesses with more than 1,000 employees) is now approximately 11%, and our market share in our Workplace sector (those businesses with 200-1,000 employees) is approximately 3%.¹

Our new customers in 2012 showed a strong desire for unified HCM by attaching multiple product components to their core UltiPro purchases. In our Enterprise market, the 2012 attach rates were 61% for Recruitment, 65% for Onboarding, 54% for Performance Management, and 51% for Time Management. In our Workplace market, the 2012 attach rates were 80% for Recruitment, 89% for Onboarding, 68% for Performance Management, and 84% for Time Management.

Our metrics indicate that market demand for our solutions continues at an aggressive pace. For the 2012 year, we had a 34% increase over 2011 in total looking-to-buy responders. That was a record high for us and a 2% increase over our previous annual high. We had a 77% increase in total social media leads in 2012 compared with 2011, and the number of unique visitors to our company website increased by 69% in 2012 over 2011.

We enhanced our UltiPro solution suite in 2012 by expanding our global and mobile HCM features to enable our customers to use UltiPro as their single source-of-truth for their employees worldwide and to engage their global employees more fully in HCM processes. The result is that our customers with multinational employees now have increased visibility into consolidated employee analytics and standard reports. Using the HTML-5 framework and a responsive Web design for mobile-centric computing, we provide our customers a rich, dynamic experience with UltiPro on mobile devices.



We also extended our product ecosystem to support an entire spectrum of HR operations by enhancing our levels of connectivity through partnerships. We created the UltiPro Carrier Network, which is an integration hub for data exchange with benefits providers and other third parties, and it is powered by Informatica, the world's number one independent leader in data integration software solutions. We partnered with CERTPOINT Systems to offer its industry-leading learning management solution to our customers through a single sign-on from our UltiPro Performance Management. Through our integration with Yammer, a best-in-class enterprise social networking solutions provider, we have brought collaboration to our customers through UltiPro Performance Management. For standards-based identity management and single sign-on, we offer Ping Identity as an alternative option to Microsoft's Active Directory Federated Services infrastructure, and we partnered with HR360 to provide our customers access to its resource library for federal and state employment law guidelines, HR forms, and best practices.

Our focus on our customers' total experience continues to be the cornerstone of our strategy as a leader in the human capital management market. To optimize the user experience, we have invested in domain-driven design and used our customer feedback to create a consumer-style experience that is flexible, responsive, and personalized. Our emphasis is on how users want to use the product rather than expecting that our users will change their behavior to accommodate the product. We use the same consumer-style approach in customer support services as well and introduced in 2012's fourth quarter a Customer Success Portal that centralizes all things important to our UltiPro customers in one central location. Our customers can readily exercise their personal preferences on how they want to acquire UltiPro support information—by watching a video, reading published documents, connecting with a support person, or requesting information from a peer by joining one or more of our 37 user communities.

We received some recognition in 2012 that confirms the strength of our products and services. *InformationWeek* magazine honored Ultimate by selecting us as one of the top 100 most innovative users of information technology in the United States. Our customer services team was awarded Service Capability & Performance (SCP) certification for best practices for the 14th consecutive year.² Ultimate as a company was recognized by Achievers as one of Achievers' 50 Most Engaged Workplaces in the United States.

In January, Ultimate was ranked #9 on FORTUNE magazine's 2013 "100 Best Companies to Work For" list. We are the only human capital management provider and the highest ranked cloud vendor on the list. This was our second year to be evaluated for this honor and builds upon our #25 ranking last year and two previous #1 rankings on the Great Place to Work Institute's medium-size best-company lists in 2008 and 2009. FORTUNE'S 2013 "100 Best Companies to Work For" list includes many of the country's largest and most respected companies, including Microsoft, Mercedes Benz USA, Starbucks, and Whole Foods Market. We congratulate our customers that also made the list this year: Baker Donelson Solutions, Camden Property Trust, The Container Store, Google (who was ranked #1 in both 2012 and 2013), JM Family Enterprises, NuStar Energy, Perkins Coie, and Quicken Loans.

As we look to the future, we expect to surpass our goal of more than \$400 million in total revenues in 2013 and to continue in the years beyond to execute on the many opportunities before us. We remain committed to the foundational values we



established twenty-three years ago—seek out the most talented, motivated people in our industry, bring them on board, and take care of them like family. They take care of our customers and our business by delivering innovative products and personalized services.

We introduced our first subscription-based service solution over the Internet in December of 2000 and our first multi-tenant Software-as-a-Service HR/payroll solution for enterprise companies in 2002. Since that time, our people have transformed UltiPro into a full-scope cloud-based HCM that has helped to transform many businesses through more strategic, efficient people management. We intend to maintain our focus on people management, and we expect that focus to enable us to continue delivering at a higher standard.

We thank our shareholders, customers, employees, and partners for your continuing support.

Scott Scherr
Chairman of the Board of Directors, Chief Executive Officer, and Founder

¹According to Hoover's/D&B numbers of non-subsiary U.S. companies and Ultimate's customer numbers, both as of 1/14/2013.

²The SCP Standards represent the global benchmark for service excellence and are recognized by leading technology companies around the world.



Financial Highlights

| Operating Data In Thousands, Except Per-Share Data ¹ | 2010 | 2011 | 2012 |
|--|------------------|------------------|------------------|
| Revenues: | | | |
| Recurring Services | \$170,905 | \$213,785 | \$266,430 |
| License | 55,368 | 53,195 | 64,563 |
| | 1,538 | 2,218 | 1,275 |
| Total Revenues | \$227,811 | \$269,198 | \$332,268 |
| Gross Profit | \$128,569 | \$152,864 | \$187,804 |
| As a % of Total Revenues | 56% | 57% | 57% |
| Operating Expenses and Other | \$120,398 | \$136,742 | \$159,065 |
| As a % of Total Revenues | 53% | 51% | 48% |
| Income Tax Provision ² | (5,161) | (11,840) | (14,107) |
| Loss from Discontinued Operations, Net of Income Taxes ³ | (853) | -- | -- |
| Net Income | \$2,157 | \$4,282 | \$14,632 |
| Diluted Net Income Per Share | \$0.08 | \$0.15 | \$0.52 |

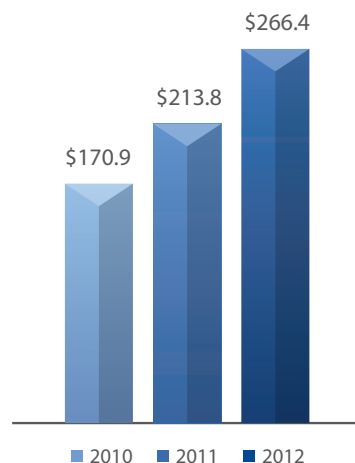
¹ Operating data, excluding Loss from Discontinued Operations, represents financial results from continuing operations.

² See Note 15 of the notes to consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2012, of The Ultimate Software Group, Inc. and subsidiaries, filed with the Securities and Exchange Commission on February 28, 2013, (the "2012 Form 10-K") for information regarding the income tax provision.

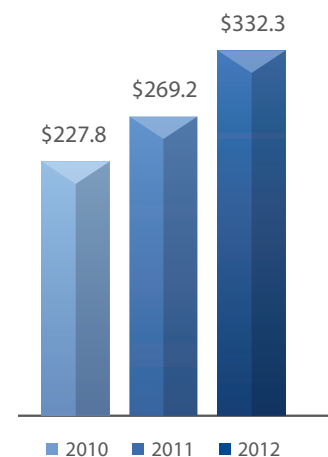
³ We discontinued and liquidated the operations of our wholly owned subsidiary in the United Kingdom in 2010.

| Balance Sheet Data In Thousands | 2010 | 2011 | 2012 |
|---|------------------|------------------|------------------|
| Cash and Cash Equivalents | \$40,889 | \$46,149 | \$58,817 |
| Investments in Marketable Securities | \$9,317 | \$9,130 | \$10,534 |
| Total Assets | \$249,557 | \$318,820 | \$525,284 |
| Deferred Revenue | \$78,095 | \$86,563 | \$91,976 |
| Long-Term Debt, including Capital Lease Obligations, Net of Current Portion | \$2,406 | \$2,175 | \$5,070 |
| Shareholders' Equity | \$72,985 | \$85,624 | \$114,670 |

Total Recurring Revenues

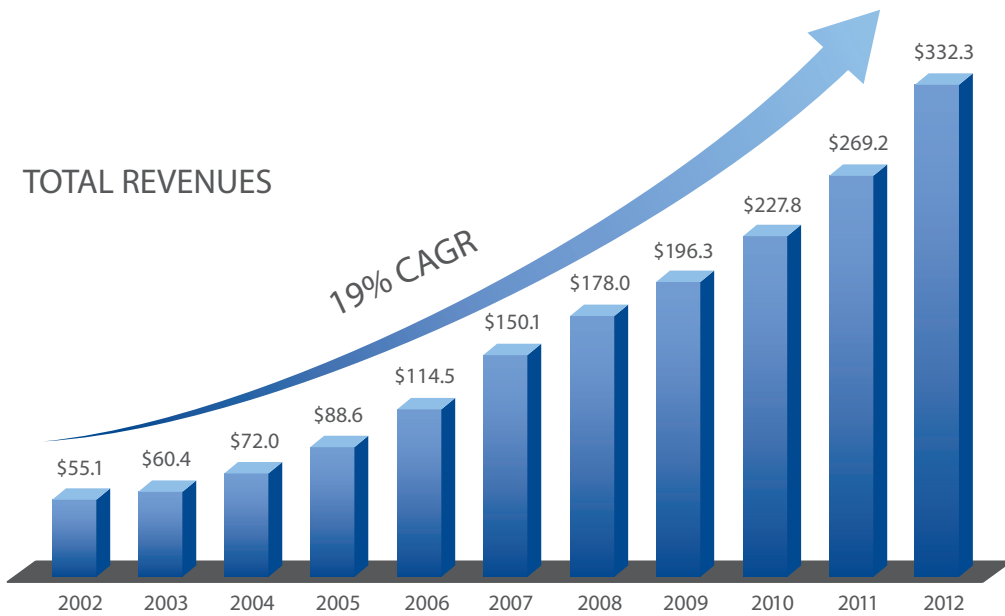
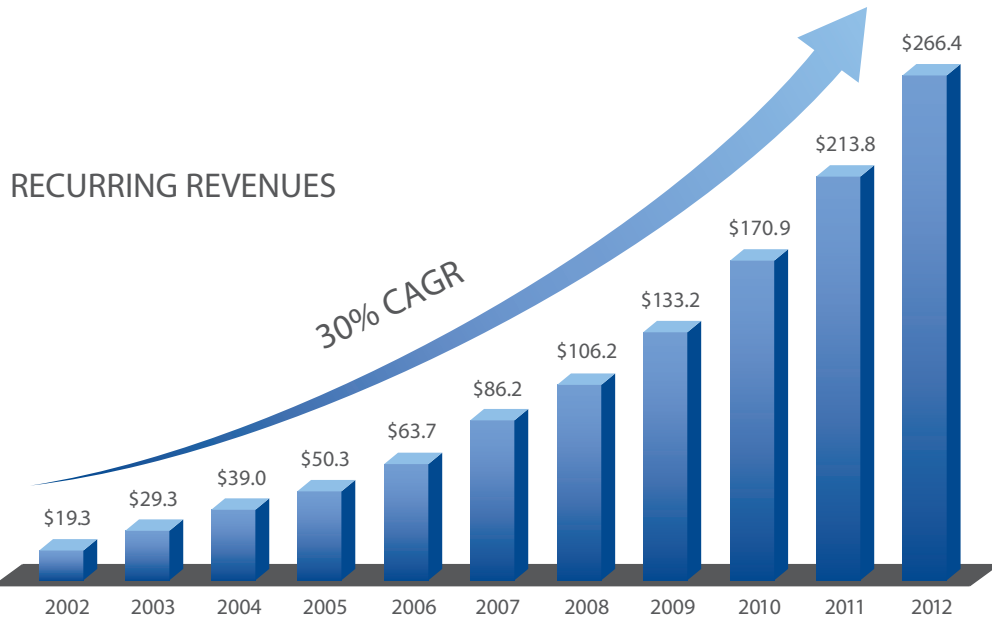


Total Revenues





11-Year Financial Performance



- Dollars are represented in millions.
- CAGR on both graphs represents growth rate from 2002-2012.



Business Highlights

- We expanded UltiPro's global HCM capabilities, made significant advances in payroll processing speed for very large organizations, increased configurability of our talent management solutions, and extended our partnership ecosystem with partners such as Yammer, a leading provider of Enterprise Social Networks; CERTPOINT, a recognized leader in Learning Management Systems; Ping Identity, a leader in identity security and single sign-on connection; and Informatica, an industry-leading data integration platform that makes UltiPro's connectivity more flexible, reliable, and efficient.
- We held our annual customer and partner conference, known as Connections, in March 2012 and had the largest attendance in our history—more than 1,200 attendees. Our customers, partners, and HR industry influencers came to learn about our product roadmap, industry best practices, and how to implement our product enhancements into their businesses. Ultimate's 2013 Connections conference will be held on March 12-15, 2013, in Las Vegas. Keynote speakers will be Pat Riley, president and former head coach of the Miami Heat and author of the book, *The Winner Within*; Shawn Achor, author of the best-selling book, *The Happiness Advantage*; and Cali Ressler and Jody Thompson, co-creators of the Results-Only Work Environment and authors of the book, *Why Work Sucks and How to Fix It*.
- Our customer support services were awarded Service Capability & Performance (SCP) certification for best practices for the 14th consecutive year. The SCP Standards represent the global benchmark for service excellence and are recognized by leading technology companies around the world.
- *InformationWeek* magazine honored Ultimate by selecting us as one of the top 100 most innovative users of information technology in the United States.
- Ultimate was recognized by Achievers as one of Achievers' 50 Most Engaged Workplaces in the United States.
- In January 2013, Ultimate was ranked #9 on FORTUNE's "100 Best Companies to Work For" list. Ultimate is the only human capital management provider and the highest ranked cloud vendor on the 2013 list. This honor builds on our #25 ranking on FORTUNE's 2012 list and our previous recognition twice as the #1 medium-size company to work for in America by The Great Place to Work Institute.



Shareholders' Meeting

DATE: Monday, May 20, 2013
10 a.m. EDT

LOCATION: Ultimate Software
2000 Ultimate Way
Weston, FL 33326

The annual meeting of shareholders will be held on May 20, 2013, at 10:00 a.m. EDT at Ultimate's headquarters, 2000 Ultimate Way, Weston, Florida 33326. Formal notice will be sent to shareholders of record as of March 25, 2013

Company Profile

Ultimate is a leading cloud-based provider of people management solutions, with more than 10 million people records in the cloud. Built on the belief that people are the most important ingredient of any business, Ultimate's award-winning UltiPro delivers HR, payroll, and talent management solutions that seamlessly connect people with the information and resources they need to work more effectively. Founded in 1990, the company is headquartered in Weston, Florida, and has more than 1,600 professionals focused on developing the highest quality solutions and services. In 2013, Ultimate was ranked #9 on FORTUNE'S "100 Best Companies to Work For" list. Ultimate has more than 2,500 customers with employees in 136 countries, including Adobe Systems Incorporated, Culligan International, Major League Baseball, The New York Yankees Baseball Team, Pep Boys, and Texas Roadhouse. More information on Ultimate's products and services for people management can be found www.ultimatesoftware.com.



Directors & Officers

BOARD OF DIRECTORS

Scott Scherr
Chairman, Chief Executive Officer, and Founder
Ultimate

Marc D. Scherr
Vice Chairman and Chief Operating Officer
Ultimate

James A. FitzPatrick, Jr.
Partner
Hogan Lovells US LLP

LeRoy A. Vander Putten
Former Executive Chairman
The Insurance Center, Inc.

Robert A. Yanover
Former President
Computer Leasing Corporation

Rick A. Wilber
President
Lynn's Hallmark Cards

Al Leiter
President
Leiter's Landing

EXECUTIVE OFFICERS

Scott Scherr
Chairman, Chief Executive Officer, and Founder

Marc D. Scherr
Vice Chairman and Chief Operating Officer

Mitchell K. Dauerman
Executive Vice President,
Chief Financial Officer, and Treasurer

Investor Relations Information

ANNUAL REPORT AND FORM 10-K

Ultimate's 2012 Annual Report, including the 2012 Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2012, is available electronically as a PDF on our Web site at www.ultimatesoftware.com. Printed copies of the 2012 Form 10-K are available without charge upon request to: Ultimate, Investor Relations Department, 2000 Ultimate Way, Weston, Florida 33326.

Independent Registered Public Accounting Firm

KPMG LLP
Miami, Florida

Legal Counsel

Stroock & Stroock & Lavan LLP
New York, New York

Transfer Agent and Registrar

Computershare Trust Company, N.A.
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Providence, Rhode Island 02940-3078
877.282.1168
www.computershare.com

Investor Relations

For additional information about Ultimate, contact Mitchell K. Dauerman, 954.331.7369.

Stock Trading

Ultimate's common stock is traded on the Nasdaq National Market under the symbol ULTI.

Company Address

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