TRINET GROUP INC
Form 10-Q
November 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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

Commission File Number: 001-36373

TriNet Group, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	95-3359658
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1100 San Leandro Blvd., Suite 400
San Leandro, CA 94577
(Address of principal executive offices) (Zip code)
Registrant’s telephone number, including area code: (510) 352-5000

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

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

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

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

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

As of October 31, 2015, the registrant had 70,022,338 shares of common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TriNet Group, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$146,315	$134,341
Restricted cash	14,554	14,543
Prepaid income taxes	21,071	26,711
Prepaid expenses	12,794	9,336
Deferred loan costs and other current assets	4,014	4,271
Worksite employee related assets	867,126	1,635,136
Total current assets	1,065,874	1,824,338
Workers compensation receivable	28,974	31,905
Restricted cash and investments	104,348	69,447
Property and equipment, net	36,352	32,298
Goodwill	290,507	288,857
Other intangible assets, net	52,534	81,718
Deferred and other long term income taxes	21,705	7,184
Deferred loan costs and other assets	9,277	12,017
Total assets	$1,609,571	$2,347,764
Liabilities and stockholders’ deficit		
Current liabilities:		
Accounts payable	$14,863	$12,273
Accrued corporate wages	34,559	29,179
Deferred income taxes	69,228	65,713
Current portion of notes payable and borrowings under capital leases	20,274	20,738
Other current liabilities	10,537	10,303
Worksite employee related liabilities	862,003	1,630,555
Total current liabilities	1,011,464	1,768,761
Notes payable and borrowings under capital leases, less current portion	484,484	524,412
Workers compensation liabilities	121,028	75,448
Other liabilities	6,694	4,902
Total liabilities	1,623,670	2,373,523
Commitments and contingencies (Note 11)		
Stockholders’ deficit:		
Preferred stock, $.000025 per share stated value; 20,000,000 shares authorized; no shares issued and outstanding at September 30, 2015 and December 31, 2014	—	—
Common stock, $.000025 per share stated value; 750,000,000 shares authorized; 69,989,672 and 69,811,326 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	485,873	442,682
Accumulated deficit	(499,467)	(468,127)
Accumulated other comprehensive loss	(505)	(314)

Total stockholders' deficit	(14,099)	(25,759)
Total liabilities and stockholders' deficit	$1,609,571	$2,347,764

See accompanying notes.

TriNet Group, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Professional service revenues	$99,473	$86,864	$294,288	$251,999
Insurance service revenues	568,535	469,087	1,639,305	1,337,870
Total revenues	668,008	555,951	1,933,593	1,589,869
Costs and operating expenses:				
Insurance costs	534,481	428,184	1,535,678	1,209,536
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	37,540	32,575	111,582	100,252
Sales and marketing	44,997	37,396	123,740	104,225
General and administrative	17,726	13,766	48,991	40,785
Systems development and programming costs	6,991	6,776	21,849	19,235
Amortization of intangible assets	10,459	12,743	32,284	39,559
Depreciation	4,132	3,265	10,761	9,725
Total costs and operating expenses	656,326	534,705	1,884,885	1,523,317
Operating income	11,682	21,246	48,708	66,552
Other income (expense):				
Interest expense and bank fees	(4,685)	(18,462)	(14,653)	(49,174)
Other, net	355	179	873	257
Income before provision for income taxes	7,352	2,963	34,928	17,635
Provision for income taxes	4,255	2,238	17,328	9,149
Net income	$3,097	$725	$17,600	$8,486
Net income per share:				
Basic	$0.04	$0.01	$0.25	$0.13
Diluted	$0.04	$0.01	$0.24	$0.13
Weighted average shares:				
Basic	70,237,737	69,134,908	70,247,035	51,654,608
Diluted	72,087,917	72,954,352	72,757,277	55,003,651

See accompanying notes.

TriNet Group, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$3,097	$725	$17,600	$8,486
Other comprehensive income (loss), net of tax				
Unrealized gains on investments	11	(10)	48	10
Foreign currency translation adjustments	(130)	(63)	(239)	(62)
Total other comprehensive loss, net of tax	(119)	(73)	(191)	(52)
Comprehensive income	$2,978	$652	$17,409	$8,434

See accompanying notes.

TriNet Group, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Operating activities		
Net income	$17,600	$8,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,559	67,754
Deferred income taxes	1,835	27,180
Stock-based compensation	12,991	8,251
Excess tax benefit from equity incentive plan activity	(20,327)	—
Accretion of workers compensation and leases fair value adjustment	(523)	(969)
Changes in operating assets and liabilities:		
Restricted cash and investments	(21,198)	(7,968)
Prepaid expenses and other current assets	(3,201)	(7,899)
Workers compensation receivables	3,294	(11,775)
Other assets	(14,585)	8,166
Accounts payable	2,522	4,826
Prepaid income taxes	27,574	(29,642)
Other current liabilities	9,103	11,321
Other liabilities	47,419	22,196
Worksite employee related assets	768,010	75,390
Worksite employee related liabilities	(768,552)	(76,921)
Net cash provided by operating activities	104,521	98,396
Investing activities		
Acquisitions of businesses	(4,750)	—
Purchase of debt securities	(14,989)	(16,789)
Proceeds from maturity of debt securities	1,275	—
Purchase of property and equipment	(14,747)	(17,082)
Net cash used in investing activities	(33,211)	(33,871)
Financing activities		
Proceeds from issuance of common stock, net of issuance costs	—	218,572
Realized tax benefit of deductible IPO transaction costs	822	585
Proceeds from issuance of common stock on exercised options	6,464	1,146
Proceeds from issuance of common stock on employee stock purchase plan	2,723	—
Excess tax benefit from equity incentive plan activity	20,327	—
Repayment of notes payable	(40,249)	(268,425)
Payment of debt issuance costs	—	(11,060)
Repayments under capital leases	(244)	(263)
Repurchase of common stock	(48,940)	(1,422)
Net cash used in financing activities	(59,097)	(60,867)
Effect of exchange rate changes on cash and cash equivalents	(239)	(62)
Net increase in cash and cash equivalents	11,974	3,596
Cash and cash equivalents at beginning of period	134,341	94,356
Cash and cash equivalents at end of period	$146,315	$97,952

Supplemental disclosures of cash flow information		
Cash paid for interest	$11,378	$25,662
Cash paid for income taxes, net	1,467	10,969
Supplemental schedule of noncash investing and financing activities		
Payable for purchase of property and equipment	68	826

See accompanying notes.

TriNet Group, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

TriNet Group, Inc. (the Company or TriNet), a Delaware corporation incorporated in January 2000, provides a comprehensive human resources solution for small to medium-sized businesses. The Company's solution includes payroll processing, human capital consulting, employment law compliance and employee benefits, including health insurance, retirement plans and workers compensation insurance.

The Company provides its services through co-employment relationships with its customers, under which the Company and its customers each take responsibility for certain portions of the employer-employee relationship for worksite employees (WSEs). The Company is the employer of record for most administrative and regulatory purposes, including the following: (i) compensation through wages and salaries; (ii) employer payroll-related taxes payment; (iii) employee payroll-related taxes withholding and payment; (iv) employee benefit programs including health and life insurance, and others; and (v) workers compensation coverage.

Segment Information

The Company operates in one reportable segment in accordance with Accounting Standard Codification (ASC) 280 – Segment Reporting, issued by the Financial Accounting Standards Board (FASB). All of the Company's service revenues are generated from external customers. Less than 1% of revenues is generated outside of the United States of America (U.S.). Substantially all of the Company's long-lived assets are located in the U.S.

Basis of Presentation

The accompanying unaudited consolidated financial statements and footnotes thereto of the Company and its wholly owned subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 30, 2015. There have been no changes to the Company's significant accounting policies described in such Annual Report that have had a material impact on its consolidated financial statements and related notes. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated balance sheets present the current assets and current liabilities directly related to the processing of human resources transactions as WSE-related assets and WSE-related liabilities, respectively. WSE-related assets are comprised of cash and investments restricted for current workers compensation claim payments, payroll funds collected, accounts receivable, unbilled service revenues, and refundable or prepaid amounts related to the Company-sponsored workers compensation and health plan programs. WSE-related liabilities are comprised of customer prepayments, wages and payroll taxes accrued and payable, and liabilities related to the Company-sponsored workers compensation and health plan programs resulting from workers compensation case reserves, premium amounts due to providers for enrolled employees, and workers compensation and health reserves that are expected to be disbursed within the next 12 months.

The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation. Certain prior period amounts in the consolidated statement of cash flows and in Note 3 have been reclassified to conform to the current presentation. The results of the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

Seasonality and Insurance Variability

Historically, the Company has experienced its highest monthly addition of WSEs, as well as its highest monthly levels of client attrition, in the month of January, primarily because clients that change their payroll and benefits service providers tend to do so at the beginning of a calendar year. In addition, the Company experiences higher levels of client attrition during the fourth quarter and, to a lesser extent, during the first quarter of the calendar year, in connection with renewals of the health insurance it provides for its WSEs, in the event that such renewals result in increased premiums that it passes on to its clients. The Company has also historically experienced higher insurance claim volumes in the second and third quarters of a fiscal year than in the first and fourth quarters of a fiscal year, as WSEs typically access their health care providers more often in the second and third quarters of a fiscal year, which has negatively impacted the Company's insurance costs in these quarters. The Company has also experienced variability on a quarterly basis in the amount of insurance costs due to the number and severity of insurance claims being unpredictable. These historical trends may change, and other seasonal trends and variability may develop that make it more difficult for the Company to manage its business.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. These estimates include, but are not limited to, allowances for accounts receivable, workers compensation-related assets and liabilities, health plan assets and liabilities, recoverability of goodwill and other intangible assets, income taxes, stock-based compensation and other contingent liabilities. Such estimates are based on historical experience and on various other assumptions that Company management believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In September 2015, the FASB issued Accounting Standards Update (ASU) 2015-16—Business Combinations, as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The amendment eliminates the requirement to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this guidance in the current fiscal year. The Company does not expect this guidance to have a material effect on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05—Intangibles—Goodwill and Other—Internal-Use Software, as part of the Simplification Initiative. The amendment provides guidance to clarify the customer's accounting for fees paid in a cloud computing arrangement. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company expects to adopt this guidance in 2016. The Company does not expect this guidance to have a material effect on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03—Interest—Imputation of Interest, as part of its Simplification Initiative. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15—Presentation of Financial Statements—Going Concern (Subtopic 205-40), which addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect to adopt this guidance early and does not believe that the adoption of this guidance will have a material effect on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12—Compensation—Stock Compensation, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. The amendments may be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented. The Company does not expect this guidance to have a material effect on its consolidated financial statements. The Company expects to adopt this guidance in 2016.

In May 2014, the FASB issued ASU 2014-09—Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance under GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. In July 2015, the FASB deferred the effective date to annual reporting periods, and interim periods within those years, beginning after December 15, 2017. Early adoption at the original effective date of December 15, 2016 is permitted. The amendments may be applied retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company has not yet selected a method of adoption and is currently evaluating the effect that the amendments will have on the consolidated financial statements.

NOTE 2. WORKSITE EMPLOYEE-RELATED ASSETS AND LIABILITIES

The following schedule presents the components of the Company's WSE-related assets and WSE-related liabilities (in thousands):

	September 30, 2015	December 31, 2014
Worksite employee-related assets:		
Restricted cash	$80,943	$64,890
Restricted investments	2,319	4,555
Payroll funds collected	479,368	1,336,994
Unbilled revenue, net of advance collections of $114,259 and $113,190 at September 30, 2015 and December 31, 2014, respectively	281,100	203,599
Accounts receivable, net of allowance for doubtful accounts of $817 and $388 at September 30, 2015 and December 31, 2014, respectively	7,122	5,193
Prepaid health plan expenses	5,545	4,932
Refundable workers compensation premiums	2,751	7,975
Prepaid workers compensation expenses	4,177	1,256
Other payroll assets	3,801	5,742
Total worksite employee-related assets	$867,126	$1,635,136
Worksite employee-related liabilities:		
Unbilled wages accrual	$365,771	$292,906
Payroll taxes payable	240,583	1,119,427
Health benefits payable	120,792	104,220
Customer prepayments	67,377	53,770
Workers compensation payable	38,246	36,778
Other payroll deductions	29,234	23,454
Total worksite employee-related liabilities	$862,003	$1,630,555

NOTE 3. WORKERS COMPENSATION

The Company has agreements with various insurance carriers to provide workers compensation insurance coverage for worksite employees. Insurance carriers are responsible for administrating and paying claims. The Company is responsible for reimbursing each carrier up to a deductible limit per occurrence.

The following summarizes the activities in the liability for unpaid claims and claims adjustment expenses (in thousands):

	For the nine months ended September 30, 2015	For the year ended December 31, 2014
Liability for unpaid claims and claims adjustment at beginning of period	$92,406	$58,610
Incurred related to:		
Current year	64,094	61,669
Prior years	3,824	(4,725)
Total incurred	67,918	56,944
Paid related to:		
Current year	(11,113)	(11,003)
Prior years	(22,509)	(12,145)
Total paid	(33,622)	(23,148)
Reclassification from workers compensation receivable	5,087	—
Liability for unpaid claims and claims adjustment at end of period	131,789	92,406
Other premiums and collateral liabilities	27,485	19,820
Total workers compensation liabilities at end of period	$159,274	$112,226
Current portion included in worksite employee-related liability	38,246	36,778
Long term portion	$121,028	$75,448

Under the terms of its agreements with its workers compensation insurance carriers, the Company collects and holds premiums in restricted accounts pending claims payments by the claims administrator. As of September 30, 2015 and December 31, 2014, such restricted amounts of $37.8 million and $36.5 million, respectively, are presented as restricted cash and restricted investments within WSE-related assets in the accompanying consolidated balance sheets. In addition, at September 30, 2015 and December 31, 2014, $104.3 million and $69.4 million, respectively, are presented as restricted long-term investments.

The reclassification from workers compensation receivable resulted from the return of collateral to the Company following a negotiated amendment of the underlying contract with a carrier.

NOTE 4. BUSINESS COMBINATIONS

Periodically, as part of the Company's strategic objectives, the Company may acquire other companies or may acquire strategic technologies which may be considered an acquisition of a business. During the three months ended September 30, 2015, the Company's strategic acquisition activity resulted in the payment of aggregate purchase consideration of approximately $4.8 million, consisting solely of cash. The allocation of the aggregate purchase consideration in the quarter resulted in intangible assets of $3.1 million and goodwill of $1.7 million. The intangible assets have a useful life of 5 years. The condensed consolidated financial statements include the operating results of strategic acquisitions considered to be a business since the respective date of the acquisition. Pro forma results of operations have not been presented as the acquisition activity is not material to the Company.

NOTE 5. PROPERTY AND EQUIPMENT, NET

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

	September 30, 2015	December 31, 2014
Software	$62,342	$53,349
Office equipment, including data processing equipment	19,779	18,550
Leasehold improvements	9,761	7,092
Furniture, fixtures, and equipment	6,946	6,450
Projects in progress	6,119	6,786
	104,947	92,227
Accumulated depreciation	(68,595)	(59,929)
Property and equipment, net	$36,352	$32,298

Software and furniture, fixtures, and equipment include amounts for assets under capital leases of $0.2 million and $1.4 million at September 30, 2015 and December 31, 2014, respectively. Accumulated depreciation of these assets was de minimis and $0.9 million at September 30, 2015 and December 31, 2014, respectively. Amortization of assets held under capital leases is included with depreciation expense in the accompanying consolidated statements of operations.

Projects in progress consist primarily of software development costs. The Company capitalizes software development costs intended for internal use. The Company recognized depreciation expense for capitalized internally developed software of $3.7 million and $4.0 million for the nine months ended September 30, 2015 and 2014, respectively. Accumulated depreciation for these assets was $32.8 million and $29.4 million at September 30, 2015 and December 31, 2014, respectively. The Company periodically assesses the likelihood of unsuccessful completion of projects in progress, as well as monitoring events or changes in circumstances, which might suggest that impairment has occurred and recoverability should be evaluated. An impairment loss is recognized if the carrying amount of the asset is not recoverable and exceeds the future net cash flows expected to be generated by the asset. There was $0.4 million and $0.1 million of losses recognized on internally developed software for the nine months ended September 30, 2015 and September 30, 2014, respectively.

NOTE 6. MARKETABLE SECURITIES AND FAIR VALUE MEASUREMENTS

The Company’s noncurrent restricted cash and investments include $64.2 million of available-for-sale marketable securities and $40.1 million of cash collateral at September 30, 2015. The Company’s restricted investments within WSE-related assets include $2.3 million of certificates of deposit as of September 30, 2015. The available-for-sale marketable securities as of September 30, 2015 and December 31, 2014 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2015:				
U.S. treasuries	$63,596	$89	$—	$63,685
Mutual funds	500	6	—	506
Total investments	$64,096	$95	$—	$64,191
December 31, 2014:				
U.S. treasuries	$50,075	$22	$(15)	$50,082
Mutual funds	500	6	—	506
Total investments	$50,575	$28	$(15)	$50,588

There were no realized gains or losses for the nine months ended September 30, 2015 and 2014. As of September 30, 2015 and December 31, 2014, the contractual maturities of the U.S. treasuries were two to three years.

As of September 30, 2015, none of the Company’s U.S. treasuries were in an unrealized loss position. Unrealized losses are principally due to changes in interest rates. In analyzing an issuer’s financial condition, the Company considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond

rating agencies have occurred, and industry analysts' reports. The fair value of these securities in an unrealized loss position represented 0% and 59% of the total fair value of all securities available for sale as of September 30, 2015 and December 31, 2014, respectively, and their unrealized losses were de minimis as of September 30, 2015 and December 31, 2014. As the Company has the ability and intent to hold

debt securities until maturity, or for the foreseeable future as classified as available for sale, no decline was deemed to be other-than-temporary.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

As a basis for considering such assumptions, the Company uses a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level I—observable inputs such as quoted prices in active markets
- Level II—inputs other than the quoted prices in active markets that are observable either directly or indirectly
- Level III—unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions

This hierarchy requires the Company to use observable market data when available and to minimize the use of unobservable inputs when determining fair value.

The following table summarizes the Company’s financial assets measured at fair value on a recurring basis (in thousands):

	Total Fair Value	Level I	Level II	Level III
September 30, 2015:				
Certificates of deposit	$2,319	$2,319	$—	$—
U.S. treasuries	63,685	63,685	—	—
Mutual funds	506	506	—	—
Total	$66,510	$66,510	$—	$—
December 31, 2014:				
Certificates of deposit	$2,318	$2,318	$—	$—
U.S. treasuries	50,082	50,082	—	—
Mutual funds	506	506	—	—
Interest rate cap	1	—	1	—
Total	$52,907	$52,906	$1	$—

There were no transfers between Level I and Level II assets during the nine months ended September 30, 2015 or the year ended December 31, 2014.

As of September 30, 2015 and December 31, 2014, certificates of deposit consisted of certificates of deposit held by domestic financial institutions, which are presented as restricted investments within WSE-related assets in the accompanying consolidated balance sheets.

The carrying value of the Company’s financial instruments not measured at fair value, including cash, restricted cash, WSE-related assets and liabilities, line of credit and accrued corporate wages, approximates fair value due to the relatively short maturity, cash repayments or market interest rates of such instruments. The fair value of such financial instruments, other than cash and restricted cash, is determined using the income approach based on the present value of estimated future cash flows. The fair value of all of these instruments would be categorized as Level II of the fair value hierarchy, with the exception of cash and cash equivalents, which would be categorized as Level I.

At September 30, 2015 and December 31, 2014, the carrying value of the Company’s notes payable of $504.6 million and $544.9 million, respectively, approximated fair value. The estimated fair values of the Company’s notes payable are considered a Level II valuation in the hierarchy for fair value measurement and are based on a cash flow model discounted at market interest rates that considers the underlying risks of unsecured debt.

NOTE 7. NOTES PAYABLE AND BORROWINGS UNDER CAPITAL LEASES

The following schedule summarizes the components of the Company's notes payable and borrowings under capital leases balances (in thousands):

	September 30, 2015	December 31, 2014
Notes payable under credit facility	$504,626	$544,875
Capital leases	132	275
Less current portion	(20,274)	(20,738)
	$484,484	$524,412

In March 2014, the proceeds from the Company's initial public offering (IPO) were used to fully repay its existing $190.0 million second lien credit facility, which resulted in a prepayment premium of $3.8 million, and to repay $25.0 million of its existing first lien tranche B-1 term loan. Additionally, the remaining balance of the loan fees associated with the second lien credit facility and a portion of the loan fees associated with the first lien credit facility were fully amortized in March 2014 for a charge of $5.0 million. In May 2014, the Company repaid $25.0 million of the first lien tranche B-1 term loan. As a result, a portion of the loan fees associated with the first lien credit facility was fully amortized in May 2014 for a charge of $0.5 million.

In July 2014, the Company amended and restated its first lien credit facility pursuant to an amended and restated first lien credit agreement (the Amended and Restated Credit Agreement). The Amended and Restated Credit Agreement provides for: (i) $375 million principal amount of tranche A term loans, (ii) $200 million principal amount of tranche B term loans, and (iii) a revolving credit facility of $75 million. The proceeds of the tranche A term loans were used to refinance in part the tranche B-2 term loans outstanding under the original first lien credit facility. The proceeds of the tranche B term loans were used to (i) refinance the remaining tranche B-2 term loans outstanding under the original first lien credit facility, (ii) refinance other amounts outstanding under the original first lien credit facility and (iii) pay fees and expenses related thereto. The revolving credit facility replaced the revolving credit facility under the original first lien credit facility.

The tranche A term loans and the revolving credit facility will mature on July 9, 2019. The tranche B term loans will mature on July 9, 2017. Loans under the revolving credit facility are expected to be used for working capital and other general corporate purposes.

The tranche A term loans and loans under the revolving credit facility bear interest, at the Company's option, at a rate equal to either the LIBOR rate, plus an applicable margin equal to 2.75% per annum, or the prime lending rate, plus an applicable margin equal to 1.75% per annum. The applicable margins for the tranche A term loans and loans under the revolving credit facility are subject to reduction by 0.25% or 0.50%, or increase by 0.25%, based upon the Company's total leverage ratio. The tranche B term loans bear interest, at the Company's option, at a rate equal to either the LIBOR rate, plus an applicable margin equal to 2.75% per annum or the prime lending rate, plus an applicable margin equal to 1.75% per annum. The Company is required to pay a commitment fee of 0.50%, subject to decrease to 0.375% based on its total leverage ratio, on the daily unused amount of the commitments under the revolving credit facility, as well as fronting fees and other customary fees for letters of credit issued under the revolving credit facility.

The Company is permitted to make voluntary prepayments at any time without payment of a premium. The Company is required to make mandatory prepayments of term loans (without payment of a premium) with (i) net cash proceeds from issuances of debt (other than certain permitted debt), (ii) net cash proceeds from certain non-ordinary course asset sales and casualty and condemnation proceeds (subject to reinvestment rights and other exceptions), and (iii) beginning with the fiscal year ending December 31, 2015, 50% of its excess cash flow (subject to decrease to (x) 25% if its total leverage ratio as of the last day of such fiscal year is less than 3.75 to 1.0 and equal to or greater than 3.00 to 1.0, and (y) 0% if the total leverage ratio as of the last day of such fiscal year is less than 3.00 to 1.0), provided that the Company may defer prepayments based on excess cash flow to the extent such payments would result in the working capital being less than $10 million (after giving effect to such prepayments).

The tranche A term loans will be paid in equal quarterly installments in an aggregate annual amount equal to: (i) beginning on December 31, 2014 to December 31, 2016, 5% of the original principal amount thereof, (ii) beginning

on December 31, 2016 to December 31, 2018, 7.5% of the original principal amount thereof, and (iii) beginning on December 31, 2018 to June 30, 2019, 10% of the original principal amount thereof with any remaining balance payable on the final maturity date of the tranche A term loans. The tranche B term loans will be paid in equal quarterly installments in an aggregate annual

amount equal to 1% of the original principal amount thereof, with any remaining balance payable on the final maturity date of the tranche B term loans.

The $75.0 million revolving credit facility includes capacity for a $30.0 million letter of credit facility and a $10.0 million swingline facility. The total unused portion of the revolving credit facility was $59.5 million as of September 30, 2015. In connection with the Amended and Restated Credit Agreement, the Company incurred $11.1 million of debt issuance costs. The Company deferred $8.0 million of the costs, which are being amortized over the term of the credit facility. The remaining $3.1 million of costs were recorded to interest expense and bank fees. Additionally, the Company recorded a $9.0 million loss on extinguishment of debt to write-off deferred issuance costs associated with the original first lien credit facility, which was also recorded to interest expense and bank fees. The remaining $6.1 million of loan fees associated with the previous facility that was deemed to be modified continues to be amortized over the revised remaining term of the Amended and Restated Credit Agreement.

In March 2015, the Company repaid $25.0 million of the first lien tranche B-1 term loan. As a result, a portion of the loan fees associated with the first lien credit facility was fully amortized in March 2015 for a charge of $0.4 million.

The Amended and Restated Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness, and dividends and other distributions. The Amended and Restated Credit Agreement also contains financial covenants that require the Company to maintain a minimum consolidated interest coverage ratio of at least 3.50 to 1.00, beginning with the fiscal quarter ending September 30, 2014, and a maximum total leverage ratio, currently at 4.50 to 1.00. The Company was in compliance with the restrictive covenants under the credit facilities at September 30, 2015. The credit facility is secured by substantially all of the Company’s assets and the assets of the borrower and of the subsidiary guarantors, other than specifically excluded assets.

NOTE 8: STOCKHOLDERS’ EQUITY

Equity-Based Incentive Plans

In 2000, the Company established the 2000 Equity Incentive Plan (the 2000 Plan), which provided for granting incentive stock options, nonstatutory stock options, bonus awards and restricted stock awards to eligible employees, directors, and consultants of the Company. In December 2009, the Board of Directors approved the 2009 Equity Incentive Plan (the 2009 Plan) as the successor to and continuation of the 2000 Plan. As of the 2009 Plan effective date, remaining shares available for issuance under the 2000 Plan were cancelled and became available for issuance under the 2009 Plan. No additional stock awards will be granted under the 2000 Plan. The 2009 Plan provides for the grant of the following awards to eligible employees, directors, and consultants: incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards, and other stock awards. Incentive stock options may only be granted to employees. Nonemployee directors are eligible to receive nonstatutory stock options automatically at designated intervals over their period of continuous service on the Board. The 2009 Plan, as amended, provides that the number of shares reserved for issuance under the 2009 Plan will increase on January 1 of each year for a period of up to five years by 4.5% of the total number of shares of capital stock outstanding on December 31 of the preceding calendar year, which will begin on January 1, 2015 and continue through January 1, 2019. On January 1, 2015, an additional 3,141,509 shares were automatically reserved for issuance under the amended 2009 Plan.

The exercise price per share of all incentive stock options granted under the 2000 Plan and the 2009 Plan must be at least equal to the fair market value of the shares at the date of grant as determined by the Board of Directors. Options issued to recipients other than nonemployee directors generally vest over four years with a one year cliff and monthly thereafter, and have a maximum contractual term of 10 years. Incentive stock options granted at 110% of the fair market value to stockholders who have greater than 10% ownership have a maximum term of five years.

The Company has granted restricted stock units (RSUs) to members of the Board of Directors and certain executives. These RSUs represent rights to receive shares of the Company’s common stock on satisfaction of applicable vesting conditions. The fair value of RSUs is equal to the fair value of the Company’s common stock on the date of grant. The RSUs granted to the members of the Board of Directors vest a year from the grant date. The RSUs granted to newly

hired employees vest at a rate of 25% of the total RSUs a year after the grant date and then 1/16 of the total RSUs granted on the 15th day of the second month of each calendar quarter thereafter. All other RSUs granted to employees vest at a rate of 1/16 of the total RSUs granted on the 15th day of the second month of each calendar quarter following the grant date.

In March 2015, the Company granted performance-based restricted stock units (PSUs) to its executives intended to represent 33.3% of each executive's annual long-term incentive compensation award value in fiscal 2015. These PSUs vest

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over three years based on the Company's attainment of annual financial performance goals as well as the executive's continued employment through each vesting date. The number of shares that ultimately vest each year will range from 0 to 200% of the annual target amount, based on the Company's performance. Cumulative financial performance metrics and goals are established for these awards at the grant date and the tranche of each award related to that period's performance goal is treated as a separate grant for accounting purposes. The financial performance metric established for the performance awards is cumulative annual growth rate in the Company's net service revenues. These values are being recognized over the tranches' 12-month, 24-month and 36-month service periods. The Company began recording stock-based compensation expense for these tranches in March 2015, when the financial performance goals were established.

Equity incentive plan activity under the 2000 Plan and the 2009 Plan for the nine months ended September 30, 2015 is summarized as follows:

Equity Incentive Plan Activity	Shares Available for Grant	
Balance at December 31, 2014	2,708,524	
Authorized	3,141,509	
Granted	(1,400,109	)
Forfeited	597,960	
Expired	1,250	
Shares withheld for taxes and not issued	24,852	
Balance at September 30, 2015	5,073,986	

The following table summarizes stock option activity under the Company's equity-based plans for the nine months ended September 30, 2015:

Stock Options Activity	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2014	6,892,810		$6.13	8.22	$ 173,338
Granted	312,200		31.66		
Exercised	(1,918,378	)	3.42		
Forfeited	(575,532	)	7.83		
Expired	(1,250	)	10.98		
Balance at September 30, 2015	4,709,850		$8.72	7.79	$ 45,341
Exercisable at September 30, 2015	1,843,386		$5.78	7.34	$ 21,443
Vested and expected to vest at September 30, 2015	4,468,943		$8.45	7.76	$ 43,827

The weighted-average grant date fair value of stock options granted in each of the three months ended September 30, 2015 and September 30, 2014 was $8.09 and $15.83 per share, respectively. The weighted-average grant date fair value of stock options granted in each of the nine months ended September 30, 2015 and September 30, 2014 was $12.85 and $6.99 per share, respectively. The total fair value of options vested for the three months ended September 30, 2015 and September 30, 2014 was $1.8 million and $1.7 million, respectively. The total fair value of options vested for the nine months ended September 30, 2015 and September 30, 2014 was $7.5 million and $6.2 million, respectively.

The total intrinsic value of options exercised for the three months ended September 30, 2015 and September 30, 2014 was $7.3 million and $6.8 million, respectively. The total intrinsic value of options exercised for the nine months ended September 30, 2015 and September 30, 2014 was $50.3 million and $16.8 million, respectively. Cash received from options exercised during the nine months ended September 30, 2015 and September 30, 2014 was $6.6 million and $1.1 million, respectively. The exercise price of all options granted was equal to the fair value of the common

stock on the date of grant.

As of September 30, 2015, unrecognized compensation expense, net of forfeitures, associated with nonvested options outstanding was $17.1 million and is expected to be recognized over a weighted-average period of 1.68 years.

The following table summarizes RSU activity under the Company's equity-based plans for the nine months ended September 30, 2015:

Restricted Stock Unit Activity	Number of Units	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2014	7,750	$13.21
Granted	914,623	$30.49
Vested	(71,053)	$32.84
Forfeited	(22,428)	$33.51
Nonvested at September 30, 2015	828,892	$30.05

The total grant date fair value of RSUs granted in the three months ended September 30, 2015 was $3.0 million. The total grant date fair value of RSUs granted in the nine months ended September 30, 2015 was $27.9 million. The total grant date fair value of RSUs vested in the three months ended September 30, 2015 was $1.2 million. The total grant date fair value of RSUs vested in the nine months ended September 30, 2015 was $2.3 million. As of September 30, 2015, unrecognized compensation expense, net of forfeitures, associated with the nonvested RSUs outstanding was $22.4 million, and is expected to be recognized over a weighted-average period of 3.31 years.
The following table summarizes PSU activity under the Company's equity-based plans for the nine months ended September 30, 2015:

Performance Based Restricted Stock Unit Activity	Number of Units	Weighted-Average Grant Date Fair Value
Outstanding units at December 31, 2014	—	$—
Granted	173,286	$33.51
Units converted	—	$—
Forfeited	—	$—
Outstanding units at September 30, 2015	173,286	$33.51

The maximum total grant date fair value of PSUs granted in the nine months ended September 30, 2015 was $5.8 million, assuming maximum 200% performance target is met. As of September 30, 2015, unrecognized compensation expense assuming a 100% performance target is met during 2016 and 2017, net of forfeitures, was $1.3 million, and is expected to be recognized over a weighted-average period of 2.25 years.

Employee Stock Purchase Plan

The Company adopted the 2014 Employee Stock Purchase Plan (ESPP) in February 2014, which became effective on March 26, 2014. The ESPP was approved with a reserve of 1.1 million shares of common stock for future issuance under various terms provided for in the ESPP, which will automatically increase on January 1 of each year from 2015 through 2024 by the lesser of 1% of the total number of shares outstanding on December 31 of the preceding calendar year or 1,800,000 shares. On January 1, 2015, an additional 698,113 shares were automatically reserved for issuance under the ESPP. The Company commenced its first purchase period under the ESPP on March 26, 2014 with a purchase price equal to the lesser of 85% of the fair market value of the common stock on the offering date and 85% of the fair market value of the common stock on the applicable purchase date. Offering periods are six months in duration and will end on or about May 15 and November 15 of each year, with the exception of the initial offering period, which commenced on March 26, 2014 and ended on November 14, 2014. Employees may contribute a minimum of 1% and a maximum of 15% of their earnings. During the nine months ended September 30, 2015, employees purchased 107,858 shares under the ESPP at a price of $25.25 per share for cash proceeds of $2.7 million.

Stock Repurchases

During the nine months ended September 30, 2015, the Company repurchased 1,895,625 shares of outstanding common stock for $48.4 million. On June 29, 2015, the Board approved the repurchase of an additional $50.0 million of its outstanding common stock in the aggregate under the existing stock repurchase program. As of September 30, 2015, a total of approximately $31.6 million remained available for further repurchases of the Company's common

stock under the Company’s stock repurchase program.

Stock-Based Compensation

Stock-based compensation expense of $13.0 million and $8.3 million was recognized for the nine months ended September 30, 2015 and 2014, respectively. Income tax benefit of $4.2 million and $2.0 million was recognized relating to stock-based compensation expense for the nine months ended September 30, 2015 and 2014, respectively. The tax benefit realized from stock options exercised was $16.4 million and $6.4 million for the nine months ended September 30, 2015 and 2014, respectively.

The fair value of stock-based awards is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Stock Option Assumptions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Expected term (in years)	6.11	6.08	6.08-6.11	6.04-6.08
Expected volatility	46 %	41 %	39-46%	41-58%
Risk-free interest rate	1.62 %	1.85 %	1.62-1.96%	1.74-1.96%
Expected dividend yield	0 %	0 %	0 %	0 %

ESPP Assumptions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Expected term (in years)	0.50	0.64	0.50	0.64
Expected volatility	43 %	58 %	34-43%	58 %
Risk-free interest rate	0.08 %	0.06 %	0.07-0.08%	0.06 %
Expected dividend yield	0 %	0 %	0 %	0 %

The volatility for the offering periods beginning on May 18, 2015, November 16, 2014 and March 26, 2014 were 43%, 33% and 58%, respectively.

Stock-based compensation expense for stock-based awards made to the Company’s employees pursuant to the equity plans was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of providing services	$1,079	$843	$3,051	$2,098
Sales and marketing	1,029	771	3,255	2,062
General and administrative	1,633	1,280	5,497	3,333
Systems development and programming costs	447	287	1,188	758
	$4,188	$3,181	$12,991	$8,251

NOTE 9: EARNINGS PER SHARE

Prior to its IPO, the Company’s basic and diluted earnings per share (EPS) were computed using the two-class method, an earnings allocation method that determines earnings per share for common stock and participating securities. Shares of convertible preferred stock are considered participating securities and are entitled to dividend, on a pro rata basis, upon redemption, as if these had been converted to common stock. The undistributed earnings are allocated between common stock and participating securities as if all earnings had been distributed during the period.

Basic EPS is calculated by taking net income, less earnings available to participating securities, divided by the basic weighted average common stock outstanding.

Diluted EPS is calculated using the more dilutive of the if-converted method and the two-class method. Because the preferred stock participates in dividends on a pro rata basis as if the shares had been converted, the diluted earnings

per share are the same under both methods. The two-class method has been presented below.

The following table sets forth the computation of the Company's basic and diluted net income per share attributable to common stock (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator (basic)				
Net income	$3,097	$725	$17,600	$8,486
Less net income allocated to participating securities	—	—	—	(1,658)
Net income attributable to common stock	$3,097	$725	$17,600	$6,828
Denominator (basic)				
Weighted average shares of common stock outstanding	70,238	69,135	70,247	51,655
Basic EPS	$0.04	$0.01	$0.25	$0.13
Numerator (diluted)				
Net income	$3,097	$725	$17,600	$8,486
Less net income allocated to participating securities	—	—	—	(1,576)
Net income attributable to common stock	$3,097	$725	$17,600	$6,910
Denominator (diluted)				
Weighted average shares of common stock	70,238	69,135	70,247	51,655
Dilutive effect of stock options and restricted stock units	1,850	3,819	2,510	3,349
Weighted average shares of common stock outstanding	72,088	72,954	72,757	55,004
Diluted EPS	$0.04	$0.01	$0.24	$0.13
Common stock equivalents excluded from diluted weighted average shares of common stock outstanding because of their anti-dilutive effect	1,321	129	957	595

NOTE 10. INCOME TAXES

The Company is subject to income taxation in the United States and Canada. However, business is conducted primarily in the United States. The effective income tax rate differs from the statutory rate primarily due to state taxes, non-deductible stock-based compensation, and tax credits. The Company makes estimates and judgments about its future taxable income that are based on assumptions that are consistent with the Company's plans and estimates. Should the actual amounts differ from these estimates, the amount of the valuation allowance could be materially affected.

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Changes in valuation allowances are reflected as a component of provision for income taxes.

The Company's effective income tax rate was 57.9% and 75.5% for the three months ended September 30, 2015 and 2014, respectively, and 49.6% and 51.9% for the nine months ended September 30, 2015 and 2014, respectively. The decrease is primarily due to a 2014 discrete charge for the revaluation of deferred taxes based on an income tax accounting method change approved by the Internal Revenue Service (IRS) in the third quarter of 2014. The remainder of the decrease is primarily due to disqualifying dispositions on previously non-deductible stock-based compensation.

The Company is subject to taxation under the laws of the U.S. and various state and local jurisdictions, as well as Canada. The Company is not subject to any material income tax examinations by U.S. federal or state tax authorities for tax years beginning prior to January 1, 2010. The Company paid Notices of Proposed Assessments outstanding as of December 31, 2014 related to the disallowance of employment tax credits totaling $10.5 million in connection with the IRS examination of Gevity HR, Inc. and its subsidiaries, which was acquired by TriNet in June 2009. The

Company plans to exhaust all administrative efforts to resolve this matter, however, it is likely that the matter will ultimately be resolved through litigation. With regard to these employment tax credits, the Company believes it is more likely than not that the Company will prevail. Therefore, no reserve has been recognized related to this matter.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases office facilities, including its headquarters and other facilities, and equipment under non-cancelable operating leases. The Company also leases certain software and furniture, fixtures, and equipment under capital leases. The lease agreements generally provide for rental payments on a graduated basis and for options to renew, which could increase future minimum lease payments if exercised. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid. Rent expense for the three months ended September 30, 2015 and 2014 was $3.2 and $3.1 million, respectively. Rent expense for the nine months ended September 30, 2015 and 2014 was $9.5 million and $8.7 million, respectively.

Operating Covenants

To meet various states' licensing requirements and maintain accreditation by the Employer Services Assurance Corporation, the Company is subject to various minimum working capital and net worth requirements. As of September 30, 2015, the Company believes it has fully complied in all material respects with all applicable state regulations regarding minimum net worth, working capital and all other financial and legal requirements. Further, the Company has maintained positive working capital throughout the period covered by the financial statements.

Contingencies

On or about August 7, 2015, Howard Welgus, a purported stockholder of the Company, filed a putative securities class action arising under the Securities and Exchange Act of 1934 in the United States District Court for the Northern District of California. The name of the case is Welgus v. TriNet Group, Inc. et al., Case No. 3:15-cv-03625. The defendants named in the case are the Company and certain of its officers. The complaint generally alleges that the Company caused damage to stockholders of the Company by misrepresenting and/or failing to disclose facts generally pertaining to alleged trends impacting health insurance and worker compensations claims. The case has not been certified as a class action, although it purports to be filed on behalf of purchasers of the Company's common stock between May 5, 2014 and August 3, 2015, inclusive. No stockholder other than Mr. Welgus submitted a motion for appointment as lead plaintiff to represent the putative class in the case prior to the October 6, 2015 deadline for such motions. A Court hearing has been set for December 10, 2015 on Mr. Welgus's motion for appointment as lead plaintiff. The Company believes that it has meritorious defenses against this action and intends to continue to defend itself vigorously against the allegations of Mr. Welgus.

The Company is and, from time to time, has been and may in the future become involved in various litigation matters, legal proceedings and claims arising in the ordinary course of its business, including disputes with its clients or various class action, collective action, representative action and other proceedings arising from the nature of its co-employment relationship with its customers and WSEs in which the Company is named as a defendant. In addition, due to the nature of the Company's co-employment relationship with its customers and WSEs, the Company could be subject to liability for federal and state law violations, even if the Company does not participate in such violations. While the Company's agreements with its customers contain indemnification provisions related to the conduct of its customers, the Company may not be able to avail itself of such provisions in every instance.

While the outcome of the matters described above cannot be predicted with certainty, management currently does not believe that any such claims or proceedings or the above mentioned securities class action will have a materially adverse effect on the Company's consolidated financial position, results of operations or cash flows. However, the unfavorable resolution of any particular matter or the Company's reassessment of its exposure for any of the above matters based on additional information obtained in the future could have a material impact on the Company's consolidated financial position, results of operations or cash flows. In addition, regardless of the outcome, the above matters, individually and in the aggregate, could have an adverse impact on the Company because of diversion of management resources and other factors.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form10-K filed with the Securities and Exchange Commission on March 30, 2015. We also encourage you to review the risks and uncertainties described in the section titled "Risk Factors" included in this Quarterly Report under Part II, Item 1A below. Unless the context suggests otherwise, references to "TriNet," the "Company," "we," "us" and "our" refer to TriNet Group, Inc. and, where appropriate, its subsidiaries.

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expe
"intend," "may," "plan," "project," "seek," "should," "strategy," "target," "will," "would" and similar expressions or variations
identify forward-looking statements. These statements are not guarantees of future performance, but are based on management's expectations as of the date of this report and assumptions that are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements. Important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below. All information provided in this report is as of the date of this report and the company undertakes no duty to update this information except as required by law.

Overview

TriNet is a leading provider of a comprehensive human resources solution for small to medium-sized businesses, or SMBs. We enhance business productivity by enabling our clients to outsource their human resources, or HR, function to one strategic partner and allowing them to focus on operating and growing their core businesses. Our HR solution includes services such as payroll processing, human capital consulting, employment law compliance and employee benefits, including health insurance, retirement plans and workers compensation insurance. Our services are delivered by our expert team of HR professionals and enabled by our proprietary, cloud-based technology platform, which allows our clients and their employees to efficiently conduct their HR transactions anytime and anywhere. We believe we are a leader in the industry due to our size, our presence in the United States and Canada and the number of clients and employees that we serve.

We utilize a co-employment model pursuant to which both we and our clients become employers of our clients' employees, which we refer to as worksite employees, or WSEs. This model affords us a close and embedded relationship with our clients and their employees. Under the co-employment model, employment-related liabilities are contractually allocated between us and our clients. We assume responsibility for, and manage the risks associated with, each client's employee payroll obligations, including the liability for payment of salaries and wages to each client employee, the payment of payroll taxes and, at the client's option, responsibility for providing group health, welfare, workers compensation and retirement benefits to such individuals. Unlike a payroll service provider, we issue each WSE a payroll check drawn on our bank accounts and contract with insurance carriers to provide health and workers compensation insurance to WSEs under TriNet's name.

We serve thousands of clients in specific industry vertical markets, including technology, life sciences, property management, professional services, banking and financial services, retail, manufacturing and hospitality services, as well as non-profit entities. As of September 30, 2015, we served over 12,000 clients in all 50 states, the District of Columbia and Canada and co-employed approximately 315,000 WSEs.

Our total revenues consist of professional service revenues and insurance service revenues. For each of the three and nine months ended September 30, 2015, 15% of our total revenues consisted of professional service revenues, and 85% of our total revenues consisted of insurance service revenues. For each of the three and nine months ended September 30, 2014, 16% of our total revenues consisted of professional service revenues, and 84% of our total revenues consisted of insurance service revenues. We earn professional service revenues by processing HR

transactions, such as payroll and employment tax withholding, and providing labor and benefit law compliance services, on behalf of our clients. We earn insurance service revenues by providing risk-based, third-party plans to our clients, primarily employee health benefit plans and workers compensation insurance.

For professional service revenues, we recognize as revenues the fees we earn for processing HR transactions, which fees do not include the payroll that is paid to us by the client and paid out to WSEs or remitted as taxes. We recognize as insurance service revenues all insurance-related billings and administrative fees collected from clients and withheld from WSEs for risk-based insurance plans provided through third-party insurance carriers, primarily employee health insurance and workers compensation insurance. We in turn pay premiums to third-party insurance carriers for these insurance benefits, as well as reimburse them for claim payments within our insurance deductible layer. These premiums and reimbursements are classified as insurance costs on our statements of operations. To augment our financial information prepared in accordance with U.S. generally accepted accounting principles, or GAAP, we use internally non-GAAP financial measures of revenues, including Net Insurance Service Revenues, which consists of insurance service revenues less insurance costs, and Net Service Revenues, which is the sum of professional service revenues and Net Insurance Service Revenues. For the three months ended September 30, 2015 and 2014, 74% and 68% of our Net Service Revenues, respectively, consisted of professional service revenues and 26% and 32% of our Net Service Revenues, respectively, consisted of Net Insurance Service Revenues. For the nine months ended September 30, 2015 and 2014, 74% and 66% of our Net Service Revenues, respectively, consisted of professional service revenues and 26% and 34% of our Net Service Revenues, respectively, consisted of Net Insurance Service Revenues.

We sell our services primarily through our direct sales force, which consists of sales representatives who focus on serving clients in specific industry vertical markets. For the three months ended September 30, 2015 and 2014, our sales and marketing expenses were $45.0 million and $37.4 million, respectively, or 7% and 7% of our total revenues and 34% and 29% of our Net Service Revenues, respectively. For the nine months ended September 30, 2015 and 2014, our sales and marketing expenses were $123.7 million and $104.2 million, respectively, or 6% and 7% of our total revenues and 31% and 27% of our Net Service Revenues, respectively.

We have made significant investments in our proprietary, cloud-based technology platform, including implementing client information and management software to provide our clients with enhanced features and functionality with which to conduct their HR transactions, manage their employees and analyze employee benefits data. For the three months ended September 30, 2015 and 2014, our systems development and programming costs were $7.0 million and $6.8 million, respectively, representing 1% of our total revenues and 5% of our Net Service Revenues in each period. For the nine months ended September 30, 2015 and 2014, our systems development and programming costs were $21.8 million and $19.2 million, respectively, representing 1% of our total revenues and 5% of our Net Service Revenues in each period.

Strategic Acquisitions

We operate in a highly fragmented industry and have completed numerous strategic acquisitions over the course of the past decade. We intend to continue to pursue strategic acquisitions that will enable us to add new clients and employees to our existing business and offer our clients and their employees more comprehensive and attractive services. Because many of the companies we have acquired to date were focused on specific industries, our acquisitions have allowed us to expand our vertical service offerings into areas such as financial services, property management and food services, hospitality and manufacturing in which we did not previously have a significant presence. In addition, through acquisition activities we have added sales representatives with experience in these vertical markets. Our acquisitions have provided us with additional clients and WSEs to allow us to continue to leverage our operations over a larger client base. Our operations could be adversely impacted if our strategic acquisitions are not integrated effectively, but we expect to continue to pursue strategic acquisitions as part of our overall business strategy.

Key Operating Metrics

We regularly review certain key operating metrics to evaluate growth trends, measure our performance and make strategic decisions. Our key operating metrics as of and for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014

Net Insurance Service Revenues (in thousands)	$34,054	$40,903	$103,627	$128,334
Net Service Revenues (in thousands)	$133,527	$127,767	$397,915	$380,333
Total WSEs	314,930	272,846		
Total Sales Representatives	479	391		

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Total WSEs

We define Total WSEs at the end of a given fiscal period as the total number of WSEs paid in the last calendar month of the fiscal period. We believe that comparing our Total WSEs at the end of a fiscal period to that of prior periods is an indicator of our success in growing our business, both organically and through the integration of acquired businesses, and retaining clients, and that our Total WSEs paid in the last calendar month of the fiscal period is a leading indicator of our anticipated revenues for future fiscal periods.

Total Sales Representatives

Our direct sales force consists of sales representatives who focus on serving clients in specific industry vertical markets. We define Total Sales Representatives at the end of a given fiscal period as the total number of our direct sales force employees at that date. We believe that comparing our Total Sales Representatives at the end of a fiscal period to our Total Sales Representatives at the end of a prior fiscal period is an indicator of our success in growing our business, and that our Total Sales Representatives at the end of recent fiscal periods is a key indicator of our ability to increase our revenues in the following fiscal periods.

Net Insurance Service Revenues and Net Service Revenues

We define Net Insurance Service Revenues as insurance service revenues less insurance costs. We define Net Service Revenues as the sum of professional service revenues and Net Insurance Service Revenues. Our total revenues on a GAAP basis represent the total amount invoiced by us to our clients, net of direct pass-through costs such as payroll and payroll tax payments, for the services we provide to our clients. Our insurance costs include the premiums we pay to insurance carriers for the health and workers compensation insurance coverage provided to our clients and WSEs and the reimbursements we pay to the insurance carriers for claim payments within our insurance deductible layer. We act principally as the service provider to add value in the execution and procurement of these services to our clients. Net Insurance Service Revenues is the primary indicator of our ability to source, add value and offer benefit services to WSEs through third-party insurance carriers, and is considered by management to be a key performance measure. We believe that Net Service Revenues is also a key performance measure as it provides a useful measure of total revenues for the two main components of our revenues calculated on a consistent basis. In addition, management believes measuring operating costs as a function of Net Service Revenues provides a useful metric, as we believe it enables better evaluation of the performance of our business.

Impact of Health Care Reform

The Patient Protection and Affordable Care Act and the Heath Care and Education Reconciliation Act of 2010, which we refer to collectively as the Act, entail sweeping health care reforms with staggered effective dates from 2010 through 2018, and many provisions of the Act require the issuance of additional guidance from the U.S. Departments of Labor and Health and Human Services, the Internal Revenue Service, or IRS, and U.S. states. A number of key provisions of the Act began to take effect in 2014, including the establishment of state and federal insurance exchanges, insurance market reforms, “pay or play” penalties on applicable large employers and the imposition and assessment of excise taxes on the health insurance industry and reinsurance taxes on insurers and third-party administrators. Collectively, these items have the potential to significantly change the insurance marketplace for employers and how employers offer or provide insurance to employees.

We are not yet able to determine the impacts to our business, and to our clients, resulting from the Act. In future periods, the Act may result in increased costs to us and our clients and could affect our ability to attract and retain clients. Additionally, we may be limited or delayed in our ability to increase service fees to offset any associated potential increased costs resulting from compliance with the Act. Furthermore, the uncertainty surrounding the terms and application of the Act may delay or inhibit the decisions of potential clients to outsource their HR needs. As a result, these changes could have a negative impact on our operating results.

Seasonality and Insurance Variability

Historically, we have experienced our highest monthly addition of WSEs, as well as our highest monthly levels of client attrition, in the month of January, primarily because clients that change their payroll service providers tend to do so at the beginning of a calendar year. In addition, we experience higher levels of client attrition during the fourth quarter and, to a lesser extent, during the first quarter of the calendar year, in connection with renewals of the health insurance we provide for our WSEs, in the event that such renewals result in increased premiums that we pass on to

our clients. We have also historically experienced higher insurance claim volumes in the second and third quarters of a fiscal year than in the first and fourth quarters of a fiscal year, as WSEs typically access their health care providers more often in the second and third quarters of a fiscal year,

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which has negatively impacted our insurance costs in these quarters. We have also experienced variability on a quarterly basis in the amount of insurance costs due to the number and severity of insurance claims being unpredictable. These historical trends may change, and other seasonal trends and variability may develop that make it more difficult for us to manage our business.

Non-GAAP Financial Results

We use Net Insurance Service Revenues, Net Service Revenues, Adjusted EBITDA and Adjusted Net Income to provide an additional view of our operational performance. Net Insurance Service Revenues, Net Service Revenues, Adjusted EBITDA and Adjusted Net Income are financial measures that are not prepared in accordance with GAAP. We define Net Insurance Service Revenues as insurance service revenues less insurance costs, which include the premiums we pay to insurance carriers for the health and workers compensation insurance coverage provided to our clients and WSEs and the reimbursements we pay to the insurance carriers for claim payments within our insurance deductible layer. We define Net Service Revenues as the sum of professional service revenues and Net Insurance Service Revenues. We define Adjusted EBITDA as net income, excluding the effects of our income tax provision, interest expense, depreciation, amortization of intangible assets, stock-based compensation expense and, in 2014, certain costs related to a public offering of our shares of common stock. We define Adjusted Net Income as net income, excluding the effects of our effective income tax rate, stock-based compensation, amortization of intangible assets, non-cash interest expense, debt prepayment premium, the income tax effect of these pre-tax adjustments at our effective tax rate and, in 2014, certain costs related to a public offering of our shares of common stock. For purposes of our non-GAAP financial presentation, as a result of a 2015 increase in New York City tax rates and, in the third quarter of 2015, an increase in blended state rates, we have adjusted the effective tax rate to 41.5% for the three and nine month periods ended September 30, 2015, from 39.5% for three and nine month periods ended September 30, 2014. Each of these effective tax rates exclude income tax on non-deductible stock-based compensation and discrete items including the cumulative effect of state law changes. Non-cash interest expense represents amortization and write-off of our debt issuance costs.

We believe that the use of Net Insurance Service Revenues provides useful information as it presents a measure of revenues from our provision of insurance services to our clients that eliminates the cost of insurance. We believe that Net Service Revenues provides a useful measure of total revenues for the two main components of our revenues calculated on a consistent basis. We believe that the use of Adjusted EBITDA and Adjusted Net Income provides additional period-to-period comparisons and analysis of trends in our business, as they exclude certain one-time and non-cash expenses. We believe that Net Insurance Service Revenues, Net Service Revenues, Adjusted EBITDA and Adjusted Net Income are useful for our stockholders and board of directors by helping them to identify trends in our business and understand how our management evaluates our business. We use Net Insurance Service Revenues, Net Service Revenues and Adjusted EBITDA to monitor and evaluate our operating results and trends on an ongoing basis and internally for operating, budgeting and financial planning purposes, in addition to allocating our resources to enhance the financial performance of our business and evaluating the effectiveness of our business strategies. We also use Net Service Revenues and Adjusted EBITDA in determining the incentive compensation for management.

Net Insurance Service Revenues, Net Service Revenues, Adjusted EBITDA and Adjusted Net Income are not prepared in accordance with, and should not be considered in isolation of, or as an alternative to, measurements required by GAAP. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. As non-GAAP measures, Net Insurance Service Revenues, Net Service Revenues, Adjusted EBITDA and Adjusted Net Income have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. In particular:

- Net Insurance Service Revenues and Net Service Revenues are reduced by the insurance costs that we pay to the insurance carriers;
- Adjusted EBITDA does not reflect interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect the amounts we paid in taxes or other components of our tax provision;
- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

- Adjusted EBITDA and Adjusted Net Income do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA and Adjusted Net Income do not reflect the non-cash component of employee compensation;

- Although depreciation and amortization of intangible assets are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in our industry may calculate these measures or similar measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, you should consider Net Insurance Service Revenues, Net Service Revenues, Adjusted EBITDA and Adjusted Net Income alongside other financial performance measures, including total revenues, net income and our financial results presented in accordance with GAAP.

The table below sets forth a reconciliation of GAAP insurance service revenues to Net Insurance Service Revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Insurance service revenues	$568,535	$469,087	$1,639,305	$1,337,870
Less: Insurance costs	534,481	428,184	1,535,678	1,209,536
Net Insurance Service Revenues	$34,054	$40,903	$103,627	$128,334

The table below sets forth a reconciliation of GAAP total revenues to Net Service Revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Total revenues	$668,008	$555,951	$1,933,593	$1,589,869
Less: Insurance costs	534,481	428,184	1,535,678	1,209,536
Net Service Revenues	$133,527	$127,767	$397,915	$380,333

The table below sets forth a reconciliation of GAAP net income to Adjusted EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income	$3,097	$725	$17,600	$8,486
Provision for income taxes	4,255	2,238	17,328	9,149
Stock-based compensation	4,188	3,181	12,991	8,251
Interest expense and bank fees	4,685	18,462	14,653	49,174
Depreciation	4,132	3,265	10,761	9,725
Amortization of intangible assets	10,459	12,743	32,284	39,559
Secondary offering costs	—	858	—	858
Adjusted EBITDA	$30,816	$41,472	$105,617	$125,202

The table below sets forth a reconciliation of GAAP net income to Adjusted Net Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income	$3,097	$725	$17,600	$8,486
Effective income tax rate adjustment	1,204	1,068	2,833	2,183
Stock-based compensation	4,188	3,181	12,991	8,251
Amortization of intangible assets	10,459	12,743	32,284	39,559
Non-cash interest expense	799	13,602	2,820	21,088
Debt prepayment premium	—	—	—	3,800
Secondary Offering Costs	—	858	—	858
Income tax impact of pre-tax adjustments	(6,410)	(12,002)	(19,959)	(29,055)
Adjusted Net Income	$13,337	$20,175	$48,569	$55,170

Basis of Presentation and Key Components of Our Results of Operations

Total Revenues

Our total revenues consist of professional service revenues and insurance service revenues.

We earn professional service revenues by processing HR transactions, such as payroll and employment tax withholding, payment to WSEs, and labor and benefit law compliance, on behalf of our clients. Our clients pay us these fees based on either a fixed fee per WSE per month or per transaction, or a percentage of the WSE’s payroll cost, pursuant to written professional services agreements that are generally cancelable by us or our clients upon 30 days’ prior written notice. We also earn professional service revenues by providing strategic HR services to our clients, such as talent acquisition, performance management and time and expense reporting services. Our clients pay us professional service fees for these services based on separate written agreements.

We earn insurance service revenues by providing risk-based, third-party plans to our clients, primarily employee health benefit plans and workers compensation insurance. Insurance service revenues consist of insurance-related billings and administrative fees. We recognize as insurance service revenues insurance-related billings and administrative fees collected from clients and withheld from WSEs for risk-based insurance plans provided through third-party insurance carriers, primarily employee health insurance and workers compensation insurance. We in turn pay premiums to third-party insurance carriers for these insurance benefits, as well as reimburse them for claim payments within our insurance deductible layer. These premiums and reimbursements are classified as insurance costs on our statements of operations.

Our clients pay us administrative fees, typically based on a percentage of insurance-related amounts, collected from clients and withheld from WSEs, primarily in exchange for our administration of employee health benefit plans.

Insurance Costs

Insurance costs include the premiums we pay to the insurance carriers for the health and workers compensation insurance coverage provided to the clients and WSEs and the reimbursements we pay to the insurance carriers for claim payments made to the WSEs within the insurance deductible layer.

Our insurance costs are, in part, a function of the type and terms of agreements that we enter into with the insurance carriers that provide fully-insured coverage for our WSEs. Our future premiums under these, or ensuing, policies will be influenced by the WSE claims activity in prior periods. The remainder of the health insurance policies and all of the workers compensation insurance policies that we provide to our clients are policies with respect to which we agree to reimburse our carriers for any claims that they pay within our deductible layer. Under these policies, WSEs file claims with the carriers, which are responsible for paying the claims up to the maximum coverage under the policies. The carriers then seek reimbursement from us up to our deductible per incident for workers compensation claims, or up to a cap for health insurance claims in accordance with the terms of the underlying health insurance policies. In no event are we liable to pay the claims directly to WSEs. As we evaluate the claims experience for each fiscal period, we adjust, as we deem necessary, our workers compensation and health benefits reserves, and this in turn has a

corresponding impact on our insurance costs. As a result, our

insurance costs fluctuate from period to period depending on the number and severity of the claims incurred by our WSEs. We expect our insurance costs to continue to increase in absolute dollars on an annual basis for the foreseeable future due to expected growth in WSEs. We also expect our insurance costs to continue to fluctuate on a quarterly basis due to variability in the number and severity of claims.

Cost of Providing Services

Cost of providing services consists primarily of costs incurred by us associated with direct customer support, such as payroll and benefits processing, professional HR consultants, employee liability insurance and costs associated with defending clients in employment-related legal claims, benefits and risk management, postage and shipping expenses and consulting expenses. We expect our cost of providing services to continue to increase in absolute dollars on an annual basis for the foreseeable future due to expected growth in WSEs, partially offset by improved efficiencies, although these expenses may fluctuate as a percentage of our total revenues from period to period depending on the timing of those expenses.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, commissions and related variable compensation expenses, commission payments to partners and the cost of marketing programs. Marketing programs consist of advertising, lead generation, marketing events, corporate communications, brand building and product marketing activities, as well as various incentivized partnership and referral programs. We expect our sales and marketing expenses to continue to increase, both in absolute dollars and as a percentage of our total revenues on an annual basis, for the foreseeable future as we expand our sales force and our other sales and marketing efforts to build our brand, although these expenses may fluctuate as a percentage of our total revenues from period to period depending on the timing of those expenses.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation-related expenses, legal and other professional services fees and other general corporate expenses. We expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future due to increases in our legal and financial compliance costs in connection with being a newly public company, although these expenses may fluctuate as a percentage of our total revenues from period to period depending on the timing of those expenses.

Systems Development and Programming Costs

Systems development and programming costs consist primarily of compensation-related expenses for our employees and contractors dedicated to systems development and programming, as well as fees that we pay to third-party consulting firms. We expect our systems development and programming costs to continue to increase modestly in absolute dollars for the foreseeable future as we continue to invest in and improve our technology platform. However, over time, we expect our systems development and programming costs to remain relatively consistent as a percentage of our total revenues on an annual basis, although these costs may fluctuate as a percentage of our total revenues from period to period depending on when we incur those costs.

Amortization of Intangible Assets

Amortization of intangible assets represents costs associated with an acquired company’s developed technologies, client lists, trade names and contractual agreements. We amortize these intangibles over their respective estimated useful lives using either the straight-line method or the accelerated method.

Depreciation

Depreciation consists primarily of amortization of the cost of software and furniture, fixtures and equipment.

Other Income (Expense)

Other income (expense) consists primarily of interest expense under our credit facility and capital leases, debt issuance cost amortization, and, in 2014, a prepayment premium.

Provision for Income Taxes

We are subject to taxation in the United States and Canada. We conduct our business primarily in the United States, and all of our clients are U.S. employers. However, we provide services to certain clients with employees in Canada. The percentage of our total revenues attributable to WSEs in Canada was less than 1% for each of the three and nine months ended September 30, 2015 and 2014. Our effective tax rate differs from the statutory rate primarily due to state taxes, tax credits, non-deductible charges, changes in uncertain tax positions, and other discrete items. We make estimates and judgments about our future taxable income based on assumptions that are consistent with our plans and estimates. Should the actual amounts differ from our estimates, the amount of our valuation allowance could be materially affected.

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Changes in valuation allowances are reflected as a component of provision for income taxes.

Critical Accounting Policies, Estimates and Judgments

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. These estimates include, but are not limited to, allowances for accounts receivable, workers compensation related assets and liabilities, health plan assets and liabilities, recoverability of goodwill and other intangible assets, income taxes, stock-based compensation and other contingent liabilities. Such estimates are based on historical experience and on various other assumptions that Company management believes to be reasonable under the circumstances. Actual results could differ significantly from our estimates. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

This Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 30, 2015.

Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board, or FASB issued Accounting Standards Update (ASU) 2015-16—Business Combinations, as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The amendment eliminates the requirement to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. We expect to adopt this guidance in the current fiscal year. We do not expect this guidance to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05—Intangibles—Goodwill and Other—Internal-Use Software, as part of the Simplification Initiative. The amendment provides guidance to clarify the customer's accounting for fees paid in a cloud computing arrangement. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. We expect to adopt this guidance in 2016. We do not expect this guidance to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03— Interest—Imputation of Interest, as part of its Simplification Initiative. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. We are currently evaluating the impact that the adoption of this guidance will have on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15—Presentation of Financial Statements — Going Concern (Subtopic 205-40), which addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be

based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. We do not expect to adopt this guidance early and do not believe that the adoption of this guidance will have a material effect on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12—Compensation - Stock Compensation, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. The amendments may be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented. We do not expect this guidance to have a material effect on our consolidated financial statements. We expect to adopt this guidance in 2016.
In May 2014, the FASB issued ASU 2014-09—Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance under GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. In July 2015, the FASB deferred the effective date to annual reporting periods, and interim periods within those years, beginning after December 15, 2017. Early adoption at the original effective date of December 15, 2016 is permitted. The amendments may be applied retrospectively or as a cumulative-effect adjustment as of the date of adoption. We have not yet selected a method of adoption and are currently evaluating the effect that the amendments will have on our consolidated financial statements.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenues and Net Service Revenues for those periods. Period-to-period comparisons of our financial results are not necessarily indicative of financial results to be achieved in future periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Consolidated Statement of Operations:	(in thousands)			
Professional service revenues	$99,473	$86,864	$294,288	$251,999
Insurance service revenues	568,535	469,087	1,639,305	1,337,870
Total revenues	668,008	555,951	1,933,593	1,589,869
Costs and operating expenses:				
Insurance costs	534,481	428,184	1,535,678	1,209,536
Cost of providing services (exclusive of depreciation and amortization of intangible assets) (1)	37,540	32,575	111,582	100,252
Sales and marketing (1)	44,997	37,396	123,740	104,225
General and administrative (1)	17,726	13,766	48,991	40,785
Systems development and programming costs (1)	6,991	6,776	21,849	19,235
Amortization of intangible assets	10,459	12,743	32,284	39,559
Depreciation	4,132	3,265	10,761	9,725
Total costs and operating expenses	656,326	534,705	1,884,885	1,523,317
Operating income	11,682	21,246	48,708	66,552
Other income (expense):				
Interest expense and bank fees	(4,685)	(18,462)	(14,653)	(49,174)
Other, net	355	179	873	257
Income before provision for income taxes	7,352	2,963	34,928	17,635
Provision for income taxes	4,255	2,238	17,328	9,149
Net income	$3,097	$725	$17,600	$8,486

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Cost of providing services	$1,079	$843	$3,051	$2,098
Sales and marketing	1,029	771	3,255	2,062
General and administrative	1,633	1,280	5,497	3,333
Systems development and programming costs	447	287	1,188	758
Total stock-based compensation expense	$4,188	$3,181	$12,991	$8,251

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Percentage of total revenues:				
Professional service revenues	15 %	16 %	15 %	16 %
Insurance service revenues	85 %	84 %	85 %	84 %
Total revenues	100 %	100 %	100 %	100 %
Costs and operating expenses:				
Insurance costs	80 %	77 %	79 %	76 %
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	6 %	6 %	6 %	6 %
Sales and marketing	7 %	7 %	6 %	7 %
General and administrative	3 %	2 %	3 %	3 %
Systems development and programming costs	1 %	1 %	1 %	1 %
Amortization of intangible assets	2 %	2 %	2 %	2 %
Depreciation	1 %	1 %	1 %	1 %
Total costs and operating expenses	98 %	96 %	97 %	96 %
Operating income	2 %	4 %	3 %	4 %
Other income (expense):				
Interest expense and bank fees	(1)%	(3)%	(1)%	(3)%
Other, net	0 %	0 %	0 %	0 %
Income before provision for income taxes	1 %	1 %	2 %	1 %
Provision for income taxes	1 %	0 %	1 %	1 %
Net income	0 %	0 %	1 %	1 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Percentage of Net Service Revenues:				
Professional service revenues	74 %	68 %	74 %	66 %
Net Insurance Service Revenues	26 %	32 %	26 %	34 %
Net Service Revenues	100 %	100 %	100 %	100 %
Other operating expenses:				
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	28 %	25 %	28 %	26 %
Sales and marketing	34 %	29 %	31 %	27 %
General and administrative	13 %	11 %	12 %	11 %
Systems development and programming costs	5 %	5 %	5 %	5 %
Amortization of intangible assets	8 %	10 %	8 %	10 %
Depreciation	3 %	3 %	3 %	3 %
Total other operating expenses	91 %	83 %	88 %	83 %
Operating income	9 %	17 %	12 %	17 %
Other income (expense):				
Interest expense and bank fees	(4)%	(14)%	(4)%	(13)%
Other, net	0 %	0 %	0 %	0 %
Income before provision for income taxes	6 %	2 %	9 %	5 %
Provision for income taxes	3 %	2 %	4 %	2 %

Net income	2 %	1 %	4 %	2 %

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Three and Nine Months Ended September 30, 2015 and 2014
Total Revenues

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Professional service revenues	$99,473	$86,864	$12,609	15%	$294,288	$251,999	$42,289	17%
Insurance service revenues	568,535	469,087	99,448	21%	1,639,305	1,337,870	301,435	23%
Total revenues	$668,008	$555,951	$112,057	20%	$1,933,593	$1,589,869	$343,724	22%
Key operating metrics:								
Total WSEs	314,930	272,846	42,084	15%				
Total Sales Representatives	479	391	88	23%				

Total revenues increased by $112.1 million, or 20%, for the three months ended September 30, 2015 compared to the same period of the prior year, and by $343.7 million, or 22%, for the nine months ended September 30, 2015 compared to the same period of the prior year. For each of the three and nine months ended September 30, 2015 and 2014, 15% of our total revenues consisted of professional service revenues, and 85% of our total revenues consisted of insurance service revenues. For each of the three and nine months ended September 30, 2014, 16% of our total revenues consisted of professional service revenues, and 84% of our total revenues consisted of insurance service revenues.

Professional service revenues increased by $12.6 million, or 15%, for the three months ended September 30, 2015 compared to the same period of the prior year. The increase was mainly attributable to our increase in Total WSEs. Professional service revenues increased by $42.3 million, or 17%, for the nine months ended September 30, 2015 compared to the same period of the prior year. The increase was mainly attributable to our increase in Total WSEs. Partially offsetting the increase in the nine months ended September 30, 2015 was a $2.3 million refund related to prior year payroll taxes received in the three months ended March 31, 2014.

Insurance service revenues increased by $99.4 million, or 21%, for the three months ended September 30, 2015 compared to the same period of the prior year. The increase was primarily due to our increase in Total WSEs and an increase of 5% in average insurance service revenues per WSE. Insurance service revenues increased by $301.4 million, or 23%, for the nine months ended September 30, 2015 compared to the same period of the prior year. The increase in each of these periods was primarily due to our increase in Total WSEs and an increase of 4% in average insurance service revenues per WSE.

Total WSEs at September 30, 2015 increased by 42,084, or 15%, compared to Total WSEs at September 30, 2014, which was primarily driven by a net increase in total clients. Our Total Sales Representatives increased from 391 at September 30, 2014 to 479 at September 30, 2015, primarily due to our efforts to grow our sales force.

Insurance Costs

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Insurance costs	$534,481	$428,184	$106,297	25 %	$1,535,678	$1,209,536	$326,142	27 %

Insurance costs increased $106.3 million, or 25%, for the three months ended September 30, 2015 and $326.1 million, or 27%, for the nine months ended September 30, 2015 compared to the same periods of the prior year. The increase resulted from an increase in Total WSEs and an increase of 8% in average insurance cost per WSE for both the three and nine months ended September 30, 2015, primarily due to increased medical costs per WSE and, to a lesser extent, increased workers compensation costs per WSE.

Net Insurance Service Revenues and Net Service Revenues

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Insurance service revenues	$568,535	$469,087	$99,448	21 %	$1,639,305	$1,337,870	$301,435	23 %
Less: Insurance costs	534,481	428,184	106,297	25 %	1,535,678	1,209,536	326,142	27 %
Net Insurance Service Revenues	$34,054	$40,903	$(6,849)	(17)%	$103,627	$128,334	$(24,707)	(19)%

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Total revenues	$668,008	$555,951	$112,057	20 %	$1,933,593	$1,589,869	$343,724	22 %
Less: Insurance costs	534,481	428,184	106,297	25 %	1,535,678	1,209,536	326,142	27 %
Net Service Revenues	$133,527	$127,767	$5,760	5 %	$397,915	$380,333	$17,582	5 %

For the reasons set forth above with respect to the increase in our insurance costs, offset in part by the increases in our insurance service revenues, our Net Insurance Service Revenues decreased by $6.8 million, or 17%, for the three months ended September 30, 2015 as compared to the same period of the prior year, and by $24.7 million, or 19%, for the nine months ended September 30, 2015 as compared to the same period of the prior year. For the reasons set forth above with respect to the increases in our total revenues, offset in part by the increase in our insurance costs, Our Net Service Revenues increased by $5.8 million, or 5%, for the three months ended September 30, 2015 as compared to the same period of the prior year, and increased by $17.6 million, or 5%, for the nine months ended September 30, 2015.

Other Operating Expenses

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	$37,540	$32,575	$4,965	15 %	$111,582	$100,252	$11,330	11 %
Sales and marketing	44,997	37,396	7,601	20 %	123,740	104,225	19,515	19 %
General and administrative	17,726	13,766	3,960	29 %	48,991	40,785	8,206	20 %
Systems development and programming costs	6,991	6,776	215	3 %	21,849	19,235	2,614	14 %
Amortization of intangible assets	10,459	12,743	(2,284)	(18)%	32,284	39,559	(7,275)	(18)%
Depreciation	4,132	3,265	867	27 %	10,761	9,725	1,036	11 %
	$121,845	$106,521	$15,324	14 %	$349,207	$313,781	$35,426	11 %

Total operating
expenses

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Cost of Providing Services

	Three Months Ended September 30,		Change 2015 vs. 2014			Nine Months Ended September 30,		Change 2015 vs. 2014		
	2015	2014	$	%		2015	2014	$	%	
	(in thousands, except percentages)									
Compensation-related costs	$27,892	$23,818	$4,074	17	%	$82,459	$72,837	$9,622	13	%
Facilities	1,861	1,816	45	2	%	5,702	5,197	505	10	%
Information technology and communication	2,317	2,146	171	8	%	7,319	6,663	656	10	%
Other expenses	5,470	4,795	675	14	%	16,102	15,555	547	4	%
Total cost of providing services	$37,540	$32,575	$4,965	15	%	$111,582	$100,252	$11,330	11	%

Cost of providing services increased by $5.0 million, or 15%, for the three months ended September 30, 2015 compared to the same period of the prior year. The increase was primarily attributable to a $4.1 million increase in compensation-related costs due to increased headcount to support our growth, which includes a $0.2 million increase in stock-based compensation expense. Cost of providing services represented 6% of total revenues in each of the three months ended September 30, 2015 and 2014. Cost of providing services increased to 28% of Net Service Revenues in the three months ended September 30, 2015 from 25% in the same period of the prior year as a result of lower Net Service Revenues.

Cost of providing services increased by $11.3 million, or 11%, for the nine months ended September 30, 2015 compared to the same period of the prior year. The increase was primarily attributable to a $9.6 million increase in compensation-related costs due to increased headcount to support our growth, which includes a $1.0 million increase in stock-based compensation expense. Cost of providing services represented 6% of total revenues in each of the nine months ended September 30, 2015 and 2014. Cost of providing services increased to 28% of Net Service Revenues in the nine months ended September 30, 2015 from 26% in the same period of the prior year.

Sales and Marketing

	Three Months Ended September 30,		Change 2015 vs. 2014			Nine Months Ended September 30,		Change 2015 vs. 2014		
	2015	2014	$	%		2015	2014	$	%	
	(in thousands, except percentages)									
Compensation-related costs	$29,128	$24,667	$4,461	18	%	$84,565	$72,387	$12,178	17	%
Marketing and advertising	5,775	5,109	666	13	%	15,782	13,690	2,092	15	%
Facilities	1,200	1,037	163	16	%	3,285	2,750	535	19	%
Other expenses	8,894	6,583	2,311	35	%	20,108	15,398	4,710	31	%
Total sales and marketing	$44,997	$37,396	$7,601	20	%	$123,740	$104,225	$19,515	19	%

Sales and marketing expenses for the three months ended September 30, 2015 increased by $7.6 million, or 20%, compared to the same period of the prior year. Of this increase, $4.5 million was due to compensation-related costs from our growth in direct sales channels, primarily the addition of new sales representatives, which includes a $0.3 million increase in stock-based compensation expense. In order to support the growth in our sales force, other expenses, including travel, meetings and consulting, increased $2.3 million for the three months ended September 30, 2015, or 35%, compared to the same period of the prior year. Sales and marketing expenses as a percentage of total

revenues represented 7% in each of the three months ended September 30, 2015 and 2014. As a percentage of Net Service Revenues, sales and marketing expenses increased to 34% in the three months ended September 30, 2015, from 29% in the same period of the prior year as a result of lower Net Service Revenues.

Sales and marketing expenses for the nine months ended September 30, 2015 increased by $19.5 million, or 19%, compared to the same period of the prior year. Of this increase, $12.2 million was due to compensation-related costs from our growth in direct sales channels, primarily the addition of new sales representatives, which includes a $1.2 million increase in stock-based compensation expense. Marketing and advertising expenses increased $2.1 million, or 15%, primarily as a result of our effort to focus on market verticals and penetration. In order to support the growth in sales force, other expenses including travel expenses, meetings, recruiting, training and consulting increased $4.7 million for the nine months ended September 30, 2015, or 31% compared to the same period of the prior year. Sales and marketing expenses decreased to 6% as a percentage of total revenues in the nine months ended September 30, 2015 from 7% in the same period of the prior year. As a percentage of Net Service Revenues, sales and marketing expenses increased to 31% in the nine months ended September 30, 2015 from 27% in the same period of the prior year as a result of lower Net Service Revenues.

General and Administrative

	Three Months Ended September 30,		Change 2015 vs. 2014			Nine Months Ended September 30,		Change 2015 vs. 2014		
	2015	2014	$	%		2015	2014	$	%	
	(in thousands, except percentages)									
Compensation-related costs	$9,104	$7,910	$1,194	15	%	$27,503	$24,617	$2,886	12	%
Legal, accounting and other professional fees	4,646	2,131	2,515	118	%	10,507	5,197	5,310	102	%
Other expenses	3,976	3,725	251	7	%	10,981	10,971	10	—	%
Total general and administrative	$17,726	$13,766	$3,960	29	%	$48,991	$40,785	$8,206	20	%

General and administrative expenses for the three months ended September 30, 2015 increased by $4.0 million, or 29%, compared to the same period of the prior year. Compensation-related costs increased $1.2 million compared to the same period of the prior year primarily due to a $0.4 million increase in stock-based compensation expenses. Legal, accounting and other professional fees increased $2.5 million as a result of being a public company, and, therefore, being subject to the requirements of the Sarbanes-Oxley Act. We are incurring additional costs for implementation of section 404 of the Sarbanes-Oxley Act, including, but not limited to, consulting and regulatory compliance, which amounted to $2.0 million for the three months ended September 30, 2015. General and administrative expenses increased to 3% of total revenues in the three months ended September 30, 2015 from 2% in the same period of the prior year. As a percentage of Net Service Revenues, general and administrative expenses increased to 13% for the three months ended September 30, 2015 from 11% in the same period of the prior year as a result of lower Net Service Revenues.

General and administrative expenses for the nine months ended September 30, 2015 increased by $8.2 million, or 20%, compared to the same period of the prior year. Compensation-related costs increased $2.9 million compared to the same period of the prior year primarily due to a $2.2 million increase in stock-based compensation expenses. Legal, accounting and other professional fees increased $5.3 million as a result of being a public company and, therefore, being subject to the requirements of the Sarbanes-Oxley Act. We are incurring additional costs for implementation of section 404 of the Sarbanes-Oxley Act, including, but not limited to, consulting and regulatory compliance, which amounted to $3.2 million for the nine months ended September 30, 2015. General and administrative expenses represented 3% of total revenues in each of the nine months ended September 30, 2015 and 2014. As a percentage of Net Service Revenues, general and administrative expenses increased to 12% for the nine months ended September 30, 2015 from 11% in the same period of the prior year as a result of lower Net Service Revenues.

Systems Development and Programming

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Compensation-related costs	$4,790	$5,346	$(556)	(10)%	$15,261	$15,656	$(395)	(3)%
Other expenses	2,201	1,430	771	54%	6,588	3,579	3,009	84%
Total systems development and programming costs	$6,991	$6,776	$215	3%	$21,849	$19,235	$2,614	14%

Our systems development and programming costs for the three months ended September 30, 2015 increased by $0.2 million, or 3%, compared to the same period of the prior year. The increase was primarily due to an increase in consulting expenses to support and enhance our technology product delivery, partially offset by decreased compensation-related costs. Despite the increase, systems development and programming costs represented 1% of total revenues in each of the three months ended September 30, 2015 and 2014. As a percentage of Net Service Revenues, systems development and programming costs represented 5% in each of the nine months ended September 30, 2015 and 2014.

Our systems development and programming costs for the nine months ended September 30, 2015 increased by $2.6 million, or 14%, compared to the same period of the prior year. The increase was primarily due to an increase in consulting expenses to support and enhance our technology product delivery, partially offset by decreased compensation-related costs. Despite the increase, systems development and programming costs represented 1% of total revenues in each of the nine months ended September 30, 2015 and 2014. As a percentage of Net Service Revenues, systems development and programming costs represented 5% in each of the nine months ended September 30, 2015 and 2014.

Amortization of Intangible Assets and Depreciation

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Amortization of intangible assets	$10,459	$12,743	$(2,284)	(18)%	$32,284	$39,559	$(7,275)	(18)%
Depreciation	$4,132	$3,265	$867	27%	$10,761	$9,725	$1,036	11%

Our amortization of intangible assets decreased by $2.3 million, or 18%, for the three months ended September 30, 2015 compared to the same period of the prior year and by $7.3 million, or 18%, for the nine months ended September 30, 2015 compared to the same period of the prior year, as a result of the expiration of useful lives of certain customer lists and non-compete agreements related to our previous acquisitions.

Other Income (Expense)

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Interest expense and bank fees	$(4,685)	$(18,462)	$13,777	(75)%	$(14,653)	$(49,174)	$34,521	(70)%

Other, net	$355	$179	$176	98%	$873	$257	$616	240 %

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Other income (expense) was primarily the result of interest expense under our credit facilities. In March 2014, we repaid $216.6 million of these facilities from the proceeds of our initial public offering, or IPO, which led to lower interest expense in the three and nine months ended September 30, 2015 as a result of the lower debt level compared to the same period of the prior year. Additionally, the nine months ended September 30, 2014 included $12.1 million in deferred issuance cost writeoffs and a $3.8 million debt prepayment premium.

Provision for Income Taxes

	Three Months Ended September 30,		Change 2015 vs. 2014		Nine Months Ended September 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Provision for income taxes	$4,255	$2,238	$2,017	90 %	$17,328	$9,149	$8,179	89 %
Effective tax rates	57.9 %	75.5 %			49.6 %	51.9 %		

Our provision for income taxes for the three months ended September 30, 2015 increased by $2.0 million compared to the same period of the prior year. Our effective income tax rate decreased from 75.5% for the three months ended September 30, 2014 to 57.9% for the three months ended September 30, 2015. The decrease is primarily due to a 2014 discrete charge for the revaluation of deferred taxes based on an income tax accounting method change approved by the IRS in the third quarter of 2014. The remainder of the decrease is primarily due to disqualifying dispositions on previously non-deductible stock-based compensation.

Our provision for income taxes for the nine months ended September 30, 2015 increased by $8.2 million compared to the same period of the prior year. Our effective income tax rate decreased from 51.9% for the nine months ended September 30, 2014 to 49.6% for the nine months ended September 30, 2015. The decrease is primarily due to a 2014 discrete charge for the revaluation of deferred taxes based on an income tax accounting method change approved by the IRS in the third quarter of 2014. The remainder of the decrease is primarily due to disqualifying dispositions on previously non-deductible stock-based compensation.

Liquidity and Capital Resources

Our principal source of liquidity for operations is derived from cash provided by operating activities. We rely on cash provided by operating activities to meet our short-term liquidity requirements, which primarily relate to the payment of corporate payroll and other operating costs, and capital expenditures. Our credit facilities have been used to fund acquisitions and dividends, and we have not relied on these facilities to provide liquidity for our operations. Our cash flow related to WSE payroll and benefits is generally matched by advance collection from our clients. To minimize the credit risk associated with remitting the payroll and associated taxes and benefits costs, we require clients to prefund the payroll and related payroll taxes and benefits costs. To the extent this does not occur, our results of operations and cash flow may be negatively impacted.

WSE-related liabilities can fluctuate significantly due to various factors, including the day of the week on which a client payroll period ends, the existence of holidays at or immediately following a client payroll period-end and various federal and state compliance calendars. We report the advance collection from our clients as payroll funds collected within WSE-related assets on our balance sheet. Our cash and cash equivalents reported on our balance sheet represent our corporate cash available to meet corporate liquidity requirements, capital spending and expansion plans, potential acquisitions, debt service requirements and other corporate operating cash needs.

Cash Flows

We generated positive cash flows from operating activities during the nine months ended September 30, 2015 and 2014. We also have the ability to generate cash through our financing arrangements under our credit facility to meet short-term funding requirements related to WSE-related obligations. The following table shows our cash flows from operating activities, investing activities and financing activities for the stated periods:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$104,521	$98,396
Investing activities	(33,211)	(33,871)
Financing activities	(59,097)	(60,867)
Effect of exchange rates on cash and cash equivalents	(239)	(62)
Net increase (decrease) in cash and cash equivalents	$11,974	$3,596

Cash Flows from Operating Activities

Net cash provided by operating activities was $104.5 million and $98.4 million for the nine months ended September 30, 2015 and 2014, respectively. The increase in cash from operating activities was primarily driven by refunds of workers compensation collateral held by carriers which led to an increase in restricted cash and investments.

Cash Flows from Investing Activities

Net cash used in investing activities was $33.2 million for the nine months ended September 30, 2015, as compared to $33.9 million in the same period of the prior year. Investments to purchase property and equipment were $14.7 million for the nine months ended September 30, 2015 compared to $17.1 million for the same period of 2014 reflecting continued investment in technology to enhance our product offerings. The nine months ended September 30, 2015 included $4.8 million in acquisitions of businesses, partially offset by $1.3 million in proceeds from maturity of debt securities.

Cash Flows from Financing Activities

Net cash used in financing activities was $59.1 million for the nine months ended September 30, 2015, compared to $60.9 million in the same period of the prior year. Net cash used in financing activities during the nine months ended September 30, 2015 was attributable to $40.2 million in loan repayments and $48.9 million in stock repurchases, offset by $6.5 million of net proceeds received from the exercise of stock options, $2.7 million in proceeds from issuance of our common stock for the employee stock purchase plan and $20.3 million of excess income tax benefit recognized related to stock option exercises. Net cash used in financing activities during the nine months ended September 30, 2014 was attributable to $268.4 million of loan repayments and $1.4 million in stock repurchases, offset by $218.6 million of net proceeds received from our IPO and $1.1 million of net proceeds received from the exercise of stock options.

Credit Facility

In August 2013, we, as guarantor, our subsidiary TriNet HR Corporation, as borrower, and certain of our other subsidiaries as subsidiary guarantors entered into two senior secured credit facilities: (i) a $705.0 million first lien credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and (ii) a $190.0 million second lien credit facility with Wilmington Trust, National Association, as administrative agent. Proceeds from our IPO were used to fully repay the $190.0 million second lien credit facility, which resulted in a prepayment premium of $3.8 million, and to repay $25.0 million of the first lien credit tranche B-1 term loan. Additionally, the remaining balance of the loan fees associated with the second lien credit facility and a portion of the loan fees associated with the first lien credit facility were fully amortized in March 2014 for a charge of $5.0 million. In July 2014, we amended and restated our first lien credit facility pursuant to an amended and restated first lien credit agreement, or the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement provides for: (i) $375 million principal amount of “tranche A term loans,” (ii) $200 million principal amount of “tranche B term loans,” and (iii) a revolving credit facility of $75 million, which we refer to as the revolving credit facility. The proceeds of the tranche A term loans were used to refinance in part the tranche

B-2 term loans outstanding under the original first lien credit facility. The proceeds of the tranche B term loans were used to (i) refinance the remaining tranche B-2 term loans outstanding under the original first lien credit facility, (ii) refinance other amounts outstanding under the original first lien credit facility and (iii) pay fees and expenses related thereto. The revolving credit facility replaced the revolving credit facility under the original first lien credit facility. The $75.0 million revolving credit facility includes capacity for a $30.0 million letter of credit facility and a $10.0 million swingline facility. The total unused portion of the revolving credit facility was $59.5 million as of September 30, 2015. As of September 30, 2015, we had $504.6 million in outstanding indebtedness under the Amended and Restated Credit Agreement, all of which was secured indebtedness of our subsidiary, TriNet HR Corporation, guaranteed on a senior secured basis by us and certain of our subsidiaries.

In connection with the Amended and Restated Credit Agreement, we incurred $11.1 million of debt issuance costs. We deferred $8.0 million of the costs, which are being amortized over the term of the credit facility. The remaining $3.1 million of costs were recorded to interest expense and bank fees. Additionally, we recorded a $9.0 million loss on extinguishment of debt to write-off deferred issuance costs associated with the original first lien credit facility, which was also recorded to interest expense and bank fees. The remaining $6.1 million of loan fees associated with the previous facility were deemed to be modified and continue to be amortized over the revised remaining term of the Amended and Restated Credit Agreement.

The tranche A term loans and the revolving credit facility will mature on July 9, 2019. The tranche B term loans will mature on July 9, 2017. Loans under the revolving credit facility are expected to be used for working capital and other general corporate purposes.

The tranche A term loans and loans under the revolving credit facility bear interest, at our option, at a rate equal to either the LIBOR rate, plus an applicable margin equal to 2.75% per annum, or the prime lending rate, plus an applicable margin equal to 1.75% per annum. The applicable margins for the tranche A term loans and loans under the revolving credit facility are subject to reduction by 0.25% or 0.50%, or increase by 0.25% based upon our total leverage ratio. The tranche B term loans bear interest, at our option, at a rate equal to either the LIBOR rate, plus an applicable margin equal to 2.75% per annum or the prime lending rate, plus an applicable margin equal to 1.75% per annum. We are required to pay a commitment fee of 0.50%, subject to decrease to 0.375% based on our total leverage ratio, on the daily unused amount of the commitments under the revolving credit facility, as well as fronting fees and other customary fees for letters of credit issued under the revolving credit facility.

We are permitted to make voluntary prepayments at any time without payment of a premium, except that a 1% premium would apply to a repricing of the tranche B term loans effected on or prior to the six-month anniversary of the effective date for the amendment and restatement of our credit facility. We are required to make mandatory prepayments of term loans (without payment of a premium) with (i) net cash proceeds from issuances of debt (other than certain permitted debt), (ii) net cash proceeds from certain non-ordinary course asset sales and casualty and condemnation proceeds (subject to reinvestment rights and other exceptions), and (iii) beginning with the fiscal year ending December 31, 2015, 50% of our excess cash flow (subject to decrease to (x) 25% if our total leverage ratio as of the last day of such fiscal year is less than 3.75 to 1.0 and equal to or greater than 3.00 to 1.0, and (y) 0% if our total leverage ratio as of the last day of such fiscal year is less than 3.00 to 1.0), provided that we may defer prepayments based on excess cash flow to the extent such payments would result our GAAP working capital being less than $10 million (after giving effect to such prepayments).

The tranche A term loans will be paid in equal quarterly installments in an aggregate annual amount equal to:
(i) beginning on December 31, 2014 to December 31, 2016, 5% of the original principal amount thereof,
(ii) beginning on December 31, 2016 to December 31, 2018, 7.5% of the original principal amount thereof, and
(iii) beginning on December 31, 2018 to June 30, 2019, 10% of the original principal amount thereof with any remaining balance payable on the final maturity date of the tranche A term loans. The tranche B term loans will be paid in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount thereof, with any remaining balance payable on the final maturity date of the tranche B term loans.

Our credit facility contains customary representations and warranties and customary affirmative and negative covenants applicable to us and our subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness, and dividends and other distributions. Our

credit facility also contains financial covenants that require us to maintain a minimum consolidated interest coverage ratio and a maximum total leverage ratio.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commercial commitments as of September 30, 2015, and the effect they are expected to have on our liquidity and capital resources (in thousands):

	Payments Due by Period				
	Total	Remaining fiscal year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	504,626	5,062	197,220	302,344	—
Interest on debt obligations	56,233	3,917	32,924	19,392	—
Workers compensation claim liabilities	180,170	33,542	53,745	26,708	66,175
Workers compensation premium and collateral liabilities	48,429	31,312	17,117	—	—
Capital lease obligations	256	17	140	99	—
Operating lease obligations	47,266	3,246	20,544	14,626	8,850
Purchase obligations	18,293	4,095	14,198	—	—
Uncertain tax positions	194	18	176	—	—
Total	$855,467	$81,209	$336,064	$363,169	$75,025

Long-term debt obligations of and interest on debt obligations reflect the terms of the Amended and Restated Credit Agreement discussed above. The projected interest payments incorporate the forward LIBOR curve as of September 30, 2015.

Workers compensation claim liabilities represented in the table above are considered contractual obligations because they represent the estimated costs of reimbursing the carriers for paying claims within the deductible layer in accordance with workers compensation insurance policies. Workers compensation claim liabilities include estimates for reported claims, plus estimates for claims incurred but not reported, and estimates of certain expenses associated with processing and settling the claims. These estimates are subject to significant uncertainty. The actual amount to be paid is not finally determined until we reach a settlement with the insurance carrier. Final claim settlements may vary significantly from the present estimates, particularly because many claims will not be settled until well into the future. In estimating the timing of future payments by year, we have assumed that our historical payment patterns will continue. However, the actual timing of future payments could vary materially from these estimates due to, among other things, changes in claim reporting and payment patterns and large unanticipated settlements.

Workers compensation premium and collateral liabilities represented in the table above are considered contractual obligations because they represent the estimated payments that will be made to carriers for the various workers compensation programs. These estimates are subject to uncertainty.

Our purchase obligations primarily consist of software licenses and maintenance, sales and marketing events and professional and consulting fees. These are associated with agreements that we believe are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the transaction.

To support our growth and expansion, we may lease additional office space. Many of our operating lease agreements provide us with the option to renew. Our future operating lease obligations would change if we exercised these options and if we entered into additional operating lease agreements as we expand our operations.

In the normal course of business, we make representations and warranties that guarantee the performance of services under service arrangements with clients. Historically, there has been no material losses related to such guarantees. In addition, in connection with our initial public offering, we have entered into indemnification agreements with our officers and directors, which require us to defend and, if necessary, indemnify these individuals for certain pending or future legal claims as they relate to their services provided to us. Such indemnification obligations are not included in the table above.

The uncertain tax positions disclosed in the table above exclude certain tax credit related reserves that we net with tax credit carryforwards. The reserve on these tax credits does not represent a contractual obligation or commitment because the associated tax credits have not been utilized to offset our tax liability.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks in the ordinary course of our business. These risks primarily include interest rate sensitivities as follows.

We had cash and cash equivalents, restricted cash, restricted investments, payroll funds collected, and interest bearing receivables in connection with workers compensation premiums totaling $856.8 million at September 30, 2015. Included in this amount were $66.0 million in time deposits and U.S. Treasuries. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant. Fluctuations in the value of our investment securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities. Our investments are made for capital preservation purposes. The cash and cash equivalents, restricted cash, payroll funds collected and workers compensation premium receivable are held for working capital purposes.

Our cash equivalents, payroll funds collected, workers compensation receivable and our investments are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our debt securities as “available for sale,” no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Our fixed-income portfolio is subject to interest rate risk.

We also had total outstanding indebtedness of $504.6 million as of September 30, 2015, of which $20.3 million is due within 12 months. Amounts outstanding under our credit facility carry variable interest rates of LIBOR + 2.75% over the term of the facility. As a result of our credit facility, we are exposed to changes in interest rates. With an increase in interest rates in effect at September 30, 2015 of 100 basis points, our interest expense for 2015 through 2019 would be $70.9 million. On the other hand, with a decrease in interest rates in effect at September 30, 2015 of 100 basis points, our interest expense for 2015 through 2019 would be $41.6 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired

control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Securities Class Action. On or about August 7, 2015, Howard Welgus, a purported stockholder of the Company, filed a putative securities class action arising under the Securities and Exchange Act of 1934 in the United States District Court for the Northern District of California. The name of the case is Welgus v. TriNet Group, Inc. et al., Case No. 3:15-cv-03625. The defendants named in the case are the Company and certain of its officers. The complaint generally alleges that the Company caused damage to stockholders of the Company by misrepresenting and/or failing to disclose facts generally pertaining to alleged trends impacting health insurance and worker compensations claims. The case has not been certified as a class action, although it purports to be filed on behalf of purchasers of the Company's common stock between May 5, 2014 and August 3, 2015, inclusive. No stockholder other than Mr. Welgus submitted a motion for appointment as lead plaintiff to represent the putative class in the case prior to the October 6, 2015 deadline for such motions. A Court hearing has been set for December 10, 2015 on Mr. Welgus's motion for appointment as lead plaintiff. The Company believes that it has meritorious defenses against this action and intends to continue to defend itself vigorously against the allegations of Mr. Welgus.

Other Litigation. The Company is and, from time to time, has been and may in the future become involved in various litigation matters, legal proceedings and claims arising in the ordinary course of its business, including disputes with its clients or various class action, collective action, representative action and other proceedings arising from the nature of its co-employment relationship with its customers and WSEs in which the Company is named as a defendant. In addition, due to the nature of the Company’s co-employment relationship with its customers and WSEs, the Company could be subject to liability for federal and state law violations, even if the Company does not participate in such violations. While the Company’s agreements with its customers contain indemnification provisions related to the conduct of its customers, the Company may not be able to avail itself of such provisions in every instance.

While the outcome of the matters described above cannot be predicted with certainty, management currently does not believe that any such claims or proceedings or the above mentioned securities class action will have a materially adverse effect on the Company’s consolidated financial position, results of operations or cash flows. However, the unfavorable resolution of any particular matter or the Company’s reassessment of its exposure for any of the above matters based on additional information obtained in the future could have a material impact on the Company’s consolidated financial position, results of operations or cash flows. In addition, regardless of the outcome, the above matters, individually and in the aggregate, could have an adverse impact on the Company because of diversion of management resources and other factors.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and all of the other information contained in this report, including our consolidated financial statements and related notes. Any of the following risks could materially and adversely affect our business, financial condition and results of operations and cause a decline in the trading price of our common stock, and you may lose some or all of your investment.

Risks Related to Our Business and Industry

Our success depends on growth in market acceptance of the human resources outsourcing and related services we provide.

Our success depends on the willingness of small to medium-sized businesses, or SMBs to outsource their HR function to a third-party service provider. We estimate that fewer than 5% of employees of businesses with fewer than 500 employees in the U.S. are part of a co-employment arrangement, in which all or some portion of the employer’s HR function was outsourced to a single third-party provider such as TriNet. We believe that our growth opportunity is primarily a function of our ability to penetrate the SMB market. Many companies have invested substantial personnel, infrastructure and financial resources in their own internal HR organizations or may contemplate doing so and therefore may be reluctant to switch to our solution. Companies may not engage us for other reasons, including a desire to maintain control over all aspects of their HR activities, a belief that they manage their HR activities more effectively using their internal administrative organizations, perceptions about the expenses associated with our

services, perceptions about whether our services comply with laws and regulations applicable to them or their businesses, or other considerations that may not always be evident. Additional concerns or considerations may also emerge in the future. We must address our potential clients' concerns and explain the benefits of our approach in order to convince them to change the way that they manage their HR activities, particularly in parts of the United States where our company and solution are less well-known. If we are not successful in addressing potential clients' concerns and convincing

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companies that our solution can fulfill their HR needs, then the market for our solution may not develop as we anticipate and our business may not grow.

If we are unable to rapidly grow our sales force, we will not be able to grow our business at the rate that we anticipate, which could harm our business, results of operations and financial condition.

In order to raise awareness of the benefits of our services and identify and acquire new clients, we must rapidly grow our direct sales force, which consists of regional sales representatives who focus on serving clients in specific industry vertical markets. Competition for skilled sales personnel is intense, and we cannot assure you that we will be successful in attracting, training and retaining qualified sales personnel, or that our newly hired sales personnel will function effectively, either individually or as a group. In addition, our newly hired sales personnel are typically not productive for up to a year following their hiring. This results in increased near-term costs to us relative to the sales contributions of these newly hired sales personnel. If we are unable to rapidly grow and effectively train our sales force, our revenues likely will not increase at the rate that we anticipate, which could harm our business, results of operations and financial condition.

We are subject to client attrition.

We regularly experience significant client attrition due to a variety of factors, including increases in administrative fees and insurance costs, disruption caused by the transition of WSEs we have gained through acquisition to our technology platform, client business failure, competition and clients determining to bring HR administration in-house. Our standard client service agreement can be cancelled by us or by the client without penalty with 30 days' prior written notice. Clients who intend to cease doing business with us often elect to do so effective as of the beginning of a calendar year. As a result, we have historically experienced our largest concentration of client attrition in the first quarter of each year. In addition, we experience higher levels of client attrition in connection with renewals of the health insurance we provide for WSEs in the event that such renewals result in increased premiums that we pass on to our clients. If we were to experience client attrition in excess of our projected annual attrition rate of approximately 20% of our installed WSE base, as we did in 2010 and 2011, it could harm our business, results of operations and financial condition.

Our acquisition strategy creates risks for our business.

We have completed numerous acquisitions of other businesses, and we expect that we will continue to grow through acquisitions of other businesses, assets or technologies. We may fail to identify attractive acquisition candidates or we may be unable to reach acceptable terms for future acquisitions. If we are unable to complete acquisitions in the future, our ability to grow our business will be impaired.

Acquisitions involve numerous other risks, including:

- difficulties integrating the operations, technologies, services and personnel of the acquired companies, including the migration of WSEs from an acquired company's technology platform to ours;
- challenges maintaining our internal standards, controls, procedures and policies;
- diversion of management's attention from other business concerns;
- over-valuation by us of acquired companies;
- litigation resulting from activities of the acquired company, including claims from terminated employees, customers, former stockholders and other third parties;
- insufficient revenues to offset increased expenses associated with the acquisitions and unanticipated liabilities of the acquired companies;
- insufficient indemnification or security from the selling parties for legal liabilities that we may assume in connection with our acquisitions;
- entering markets in which we have no prior experience and may not succeed;
- risks associated with foreign acquisitions, such as communication and integration problems resulting from geographic dispersion and language and cultural differences, compliance with foreign laws and regulations and general economic or political conditions in other countries or regions;
- potential loss of key employees of the acquired companies; and

- impairment of relationships with clients and employees of the acquired companies or our clients and employees as a result of the integration of acquired operations and new management personnel.

If we fail to integrate newly acquired businesses effectively, we might not achieve the growth, service enhancement or operational efficiency objectives of the acquisitions, and our business, results of operations and financial condition could be harmed.

We may pay for acquisitions by issuing additional shares of our common stock, which would dilute our stockholders, or by issuing debt, which could include terms that restrict our ability to operate our business or pursue other opportunities and subject us to meaningful debt service obligations. We may also use significant amounts of cash to complete acquisitions. To the extent that we complete acquisitions in the future, we likely will incur future depreciation and amortization expenses associated with the acquired assets. We may also record significant amounts of intangible assets, including goodwill, which could become impaired in the future.

Unexpected changes in workers compensation and health insurance claims by worksite employees could harm our business.

Our insurance costs are impacted significantly by our WSEs' health and workers compensation insurance claims experience. We establish reserves to provide for the estimated costs of reimbursing our workers compensation and health insurance carriers for paying claims within the deductible layer in accordance with their insurance policies. Estimating these reserves involves our consideration of a number of factors and requires significant judgment. If there is an unexpected increase in the severity or frequency of claims, such as due to our WSEs generating additional claims activity, or if we subsequently receive updated information indicating insurance claims were higher than previously estimated and reported, our insurance costs could be higher in that period or subsequent periods as we adjust our reserves accordingly. We have also experienced variability in the amount of insurance costs due to the number and severity of insurance claims being unpredictable. For example, in the three months ended June 30, 2015, we experienced a significant increase in the number of large medical claims, which resulted in a significant increase in insurance costs. In addition, we may be unable to increase our pricing to offset increases in insurance costs on a timely basis. A number of factors affect claim activity levels, such as changes in general economic conditions, proposed and enacted regulatory changes and disease outbreaks.

Our quarterly results of operations may fluctuate as a result of numerous factors, many of which are outside of our control.

Our quarterly results of operations are likely to fluctuate, and our results in some quarters may be below the expectations of research analysts and our investors, which could cause the price of our common stock to decline. Some of our significant expenses, such as insurance costs for our WSEs, rent expense and debt expense, may require significant lead time to offset or reduce. If we do not achieve our expected revenues targets, we may be unable to adjust our costs quickly enough to offset any revenues shortfall, which could harm our results of operations. Some of the important factors that have and may cause our revenues, results of operations and cash flows to fluctuate from quarter to quarter include:

- the number and severity of health and workers compensation insurance claims by WSEs and the timing of claims information provided by our insurance carriers;
- the amount and timing of our insurance costs, operating expenses and capital expenditures;
- the number of our new clients initiating service and the number of WSEs employed by each new client;
- our loss of existing clients;
- reduction in the number of WSEs at existing clients;
- the timing of client payments and payment defaults by clients;
- costs associated with our acquisitions of companies, assets and technologies;
- payments or drawdowns on our credit facility, or any amendments to our obligations under our credit facility;
- unanticipated expenses such as litigation or other dispute-related settlement payments;
- expenses we incur for geographic and service expansion;
- our regulatory compliance costs;
- changes to our credit ratings by rating agencies;

- changes in our effective tax rate; and
- the impact of new accounting pronouncements.

Many of the above factors are discussed in more detail elsewhere in this “Risk Factors” section and in the section of this report titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Many of these factors are outside our control, and the variability and unpredictability of these factors have in the past and could in the future cause us to fail to meet our expectations for revenues or results of operations for a given period. In addition, the occurrence of one or more of these factors might cause our results of operations to vary widely, which could lead to negative impacts on our margins, short-term liquidity or ability to retain or attract key personnel, and could cause other unanticipated issues. Accordingly, we believe that quarter-to-quarter comparisons of our revenues, results of operations and cash flows may not be meaningful and should not be relied upon as an indication of our future performance.

Our business is subject to numerous state and federal laws, and uncertainty as to the application of these laws, or adverse applications of these laws, as well as changes in applicable laws, could adversely affect our business.

Our operations are governed by numerous federal, state and local laws relating to labor, tax, benefits, insurance and employment matters. We are a professional employer organization, and by entering into a co-employment relationship with our clients and WSEs, we assume certain obligations, responsibilities and potential legal risks of an employer under these laws. However, many of these laws (such as the Employee Retirement Income Security Act, or ERISA, and federal and state employment tax laws) do not specifically address the obligations and responsibilities of a provider of outsourced HR in a co-employment relationship, and the definition of employer under these laws is not uniform. In addition, many states have not addressed the co-employment relationship for purposes of compliance with applicable state laws governing the relationship between employers and employees and state insurance laws. There is even greater uncertainty on the federal level.

We are not able to predict whether broader federal or state regulation governing the co-employment relationship will be implemented, or if it is, how it will affect us. Any adverse application or interpretation (in courts, agencies or otherwise) of new or existing federal or state laws to the co-employment relationship with our WSEs and clients could harm our business. If federal, state or local jurisdictions were to change their regulatory framework related to outsourced HR, or introduce new laws governing our industry that were materially different from existing laws, those changes could reduce or eliminate the need for some of our services, or could require that we make significant changes in our methods of doing business, which could increase our cost of doing business. Changes in regulations could also affect the extent and type of benefits employers can or must provide employees, the amount and type of taxes employers and employees are required to pay or the time within which employers must remit taxes to the applicable authority. These changes could substantially decrease our revenues and substantially increase our cost of doing business. If we fail to educate and assist our clients regarding new or revised legislation that impacts them, our reputation could be harmed.

Although some states do not explicitly regulate professional employer organizations, 42 states have passed laws that have licensing, certification or registration requirements applicable to professional employer organizations or recognize the professional employer organization model, and other states may implement such requirements in the future. Laws regulating professional employer organizations vary from state to state, but generally provide for oversight of the fiscal responsibility of professional employer organizations, and in some cases codify and clarify the co-employment relationship for processing unemployment claims, workers compensation and other purposes under state law. We may be required to spend significant time and resources to satisfy licensing requirements or other applicable regulations in some states, and we may not be able to satisfy these requirements or regulations in all states, which could prohibit us from doing business in such states. In addition, we cannot assure you that we will be able to renew our licenses in all states.

If we are not recognized as an employer of worksite employees under federal and state regulations, we and our clients could be adversely impacted.

In order for WSEs to receive the full benefit of our employee benefits plan offerings, it is important that we act and qualify as an employer of the WSEs for certain purposes under the Internal Revenue Code of 1986, or the Code, and ERISA. In addition, our status as an employer is important for purposes of ERISA's preemption of certain state laws.

The definition of employer under various laws is not uniform, and under both the Code and ERISA, the term is defined in part by complex multi-factor tests. We believe that we qualify as an employer of our WSEs in the United States for the relevant purpose of both the Code and ERISA, and we implement processes to protect and preserve this status. However, the U.S. Department of Labor has issued guidance that certain entities in the HR outsourcing industry may not qualify as common law employers of WSEs for ERISA purposes. If we were found not to be an employer under the Code, our WSEs may not receive certain tax benefits for employee benefit plans funded through our cafeteria plans, which could have a material adverse effect on our business. If we

were found not to be an employer for ERISA purposes, certain changes may be required to our employee benefit plans designs and fines and penalties could be imposed. In addition, if we were found not to be an employer for ERISA purposes, we and our employee benefit plans may not enjoy the full preemption of state laws provided by ERISA and could be subject to varying state laws and regulations, including laws governing employee benefit plan designs.

We and our clients could be adversely impacted by health care reform.

The Patient Protection and Affordable Care Act and the Heath Care and Education Reconciliation Act of 2010, which we refer to collectively as the Act, entail sweeping health care reforms with staggered effective dates from 2010 through 2018, and many provisions of the Act require the issuance of additional guidance from the U.S. Departments of Labor and Health and Human Services, the IRS and U.S. states. A number of key provisions of the Act have begun to take effect over the last year, including the establishment of state and federal insurance exchanges, insurance market reforms, “pay or play” penalties on applicable large employers and the imposition and assessment of excise taxes on the health insurance industry and reinsurance taxes on insurers and third-party administrators. Collectively, these items have the potential to significantly change the insurance marketplace for employers and how employers offer or provide insurance to employees.

As a co-employer of our clients’ WSEs, we assume or share many of the employer-related responsibilities and legal risks and assist our clients in complying with many employment-related governmental regulations. Generally, the Act and subsequently issued guidance by the IRS and the U.S. Department of Health and Human Services have not addressed, or in some instances are unclear, as to their application in the co-employment relationship. For example, the Act provides for a small business tax credit for eligible companies offering health care coverage to employees. We believe that these tax credits are available to our clients that meet the qualification requirements; however, the Act and subsequently issued IRS guidance do not expressly address the issue of whether small business clients of a professional employer organization may still qualify as small businesses eligible for such tax credits. As a result of this uncertainty, we are not yet able to determine the impacts to our business, and to our clients, resulting from the Act. In future periods, the changes may result in increased costs to us and our clients and could affect our ability to attract and retain clients. Additionally, we may be limited or delayed in our ability to increase service fees to offset any associated potential increased costs resulting from compliance with the Act. Furthermore, the uncertainty surrounding the terms and application of the Act may delay or inhibit the decisions of potential clients to outsource their HR needs. Any of these developments could harm our business, results of operations and financial condition.

We may have additional tax liabilities, which could harm our business, operating results, financial condition and prospects.

Significant judgments and estimates are required in determining our provision for income taxes and other tax liabilities. Our provision for income taxes, results of operations and cash flows may be impacted if any of our tax positions are challenged and successfully disputed by the tax authorities. In determining the adequacy of our tax provision, we assess the likelihood of adverse outcomes that could result if our tax positions were challenged by the IRS and other tax authorities. The tax authorities in the United States regularly examine our income and other tax returns. For example, in connection with an IRS examination of prior federal income tax returns filed by Gevity, a company we acquired in 2009, we received a technical advice memorandum from the IRS taking the position that a total of $10.5 million employment tax credits taken by Gevity, and an additional approximately $1.9 million taken by us after acquiring Gevity, should be reversed, which position we dispute. The ultimate outcome of these examinations and tax disputes cannot be predicted with certainty. Should the IRS or other tax authorities assess additional taxes as a result of these or other examinations, we may be required to record charges to operations that could have a material impact on our results of operations, financial position or cash flows.

Our business and operations have experienced rapid growth in recent periods, and if we are unable to effectively manage this growth, our business and results of operations may suffer.

We have experienced rapid growth and have significantly expanded our operations in recent periods, which has placed a strain on our management and our administrative, operational and financial infrastructure. Managing this growth requires us to further refine our operational, financial and management controls and reporting systems and procedures. Our ability to effectively manage any significant growth of our business will depend on a number of factors, including our ability to do the following:

- effectively recruit, integrate, train and motivate a large number of new employees, including our direct sales force, while retaining our existing employees, maintaining the beneficial aspects of our corporate culture and effectively executing our business plan;
- satisfy our existing clients and identify and acquire new clients;

- enhance the breadth and quality of our services;
- continue to improve our operational, financial and management controls; and
- make sound business decisions in light of the scrutiny associated with operating as a public company.

These activities will require significant operating and capital expenditures and allocation of valuable management and employee resources, and we expect that our growth will continue to place significant demands on our management and on our operational and financial infrastructure.

Our future financial performance and our ability to execute on our business plan will depend, in part, on our ability to effectively manage any future growth. We cannot assure you that we will be able to do so in an efficient or timely manner, or at all. In particular, any failure to successfully implement systems enhancements and improvements will likely negatively impact our ability to manage our expected growth, ensure uninterrupted operation of key business systems and comply with the rules and regulations that are applicable to public companies. If we fail to manage our growth effectively, our costs and expenses may increase more than we expect them to, which in turn could harm our business, results of operations and financial condition.

We may not be able to sustain our revenue growth rate or profitability in the future.

While we have achieved profitability on an annual basis in each of the last four fiscal years, we have not consistently achieved profitability on a quarterly basis during that same period. For example, we incurred a net loss in the three months ended June 30, 2015. We expect our operating expenses to increase substantially in the near term, particularly as we make significant investments in our sales and marketing organization, expand our operations and infrastructure and enhance the breadth and quality of our services. If our revenues do not increase to offset these increases in our operating expenses, we may not be profitable in future periods.

Moreover, you should not consider our historical revenue growth to be indicative of our future performance. As we grow our business, our revenue growth rates may slow in future periods due to a number of reasons, which may include slowing demand for our services, increasing competition, a decrease in the growth of our overall market, our failure, for any reason, to continue to capitalize on growth opportunities, the maturation of our business or the decline in the number of SMBs in our target markets.

Our industry is highly competitive, which may limit our ability to maintain or increase our market share or improve our results of operations.

We face significant competition on a national and regional level from a number of companies purporting to deliver a range of bundled services that are generally similar to the services we provide, including large professional employer organizations such as the TotalSource business unit of Automatic Data Processing, Inc. and Insperity, Inc., as well as specialized and small professional employer organization service providers. If and to the extent that we and other companies providing these services are successful in growing our businesses, we anticipate that future competitors will enter this industry. Some of our current, and any future, competitors have or may have greater marketing and financial resources than we do, and may be better positioned than we are in certain markets. Increased competition in our industry could result in price reductions or loss of market share, any of which could harm our business. We expect that we will continue to experience competitive pricing pressure. If we cannot compete effectively, our market share, business, results of operations and financial condition may suffer.

In addition to competition from other professional employer organizations, we also face competition in the form of companies and third parties serving HR needs in traditional manners. These forms of competition include:

- HR and information systems departments and personnel of companies that perform their own administration of benefits, payroll and other HR functions;
- providers of certain endpoint HR services, including payroll, benefits and business process outsourcers with high-volume transaction and administrative capabilities, such as Automatic Data Processing, Inc., Paychex, Inc. and other third-party administrators; and
- benefits exchanges that provide benefits administration services over the Internet to companies that otherwise maintain their own benefit plans.

We believe that our services are attractive to many SMBs in part because of our ability to provide workers compensation, health care and other benefits programs to them on a cost-effective basis. We compete with insurance brokers and other providers of this coverage in this regard, and our offerings must be priced competitively with those provided by these competitors in order for us to attract and retain our clients.
We may not be successful in convincing potential clients that the use of our services is a superior, cost-effective means of satisfying their HR obligations relative to the way in which they currently satisfy these obligations.
If we cannot compete effectively against other professional employer organizations or against the alternative means by which companies meet their HR obligations, our market share, business, results of operations and financial condition may suffer.
Adverse changes in our relationships with key vendors could impair the quality of our solution.
Our success depends in part on our ability to establish and maintain arrangements and relationships with vendors that supply us with essential components of our services. These service providers include insurance carriers to provide health and workers compensation insurance coverage for WSEs, as well as other vendors such as couriers used to deliver client payroll checks and banks used to electronically transfer funds from clients to their employees. Failure by these service providers, for any reason, to deliver their services in a timely manner could result in material interruptions to our operations, impact client relations, and result in significant penalties or other liabilities to us. Our agreements with many of these service providers typically have a term of one year. However, we engage some service providers, such as payroll couriers, on an as needed basis at published rates. In addition, many of our employee benefit plan agreements may be terminated by the insurance companies on 90 days' notice. If any of these vendors decided to terminate its relationship with us, we may have difficulty obtaining replacement services at reasonable rates or on a timely basis, if at all. The loss of any one or more of our key vendors, or our inability to partner with certain vendors that are better-known or more desirable to our clients or potential clients, could impair the quality of our solution and harm our business.
We depend on licenses with third-party software in order to provide our services.
We license a substantial portion of the software on which we depend to provide services to our clients from third-party vendors, including Oracle Corporation. If we are unable to maintain these licenses, or if we are required to make significant changes in the terms and conditions of these licenses, we may need to seek replacement vendors or change our software architecture to address licensing revisions with our current vendors, either of which could increase our expenses and impair the quality of our services. In addition, we cannot assure you that our key vendors will continue to support their technology. Financial or other difficulties experienced by these vendors may adversely affect the technologies we incorporate into our products and services. If this software ceases to be available, we may be unable to find suitable alternatives on reasonable terms, or at all.
If we are deemed to be an insurance agent or third-party administrator, we may incur significant additional costs and expenses, which could harm our results of operations.
State regulatory authorities generally require licenses for companies that do business in their states as insurance agents or third-party administrators, such as those that handle health or retirement plan funding and claim processing. Insurance and third-party administrator regulation covers a host of activities, including sales, underwriting, rating, claims payments and record keeping by companies and agents. We do not believe that our services constitute acting as an insurance agent or third-party administrator. If regulatory authorities in any state determine that the nature of our business requires that we be licensed as an insurance agent or as a third-party administrator, we may need to hire additional personnel to manage regulatory compliance and become obligated to pay annual regulatory fees, which could adversely affect our results of operations.
Most of our clients are concentrated in a relatively small number of industries, making us vulnerable to downturns in those industries.
Most of our clients operate in the technology, life sciences, property management, professional services, banking and financial services, retail, manufacturing and hospitality services industries. As a result, if any of those industries suffers a downturn, the portion of our business attributable to clients in that industry could be adversely affected. For example, in July 2013, we acquired Ambrose Employer Group, LLC, or Ambrose, a New York-based company that provides HR services primarily to WSEs in the financial services industry in the New York area. If the financial

services industry were to suffer a downturn similar to the one that began in the fall of 2008, our Ambrose product line would likely suffer.

We have a substantial amount of indebtedness, which could adversely affect our financial condition and our operating flexibility.

As of September 30, 2015, we had $504.6 million in outstanding indebtedness under our credit facility, all of which was secured indebtedness of our subsidiary, TriNet HR Corporation, guaranteed on a senior secured basis by us and certain of our subsidiaries. Our level of indebtedness and the limitations imposed on us by our credit facility could affect our business in various ways, including the following:

- we will have to use a portion of our cash flows from operating activities for debt service rather than for other operational activities;
- we may not be able to borrow additional funds or obtain additional financing for future working capital, acquisitions, capital expenditures or other corporate purposes, or may have to pay more for such financing;
- some or all of the indebtedness under our current or future credit facilities bears interest at variable interest rates, making us more vulnerable to interest rate increases;
- we could be less able to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- we may be more vulnerable to general adverse economic and industry conditions as a result of our inability to reduce our debt service costs in response to reduced revenues.

Because borrowings under our credit facility bear interest at a variable rate, our interest expense could increase even though the amount borrowed remains the same, exacerbating these risks. Our ability to meet these expenses depends on our future business performance, which will be affected by various factors, including the risks described in this "Risk Factors" section. We are not able to control many of these factors, such as economic conditions in the markets where we operate and pressure from competitors. Our operations may provide insufficient cash to pay the principal and interest on our credit facility and to meet our other debt obligations. If so, we may be required to refinance all or part of our existing indebtedness or borrow additional funds, which we may not be able to do on terms that are acceptable to us, if at all. In addition, the terms of our existing or future debt agreements may restrict our ability to take some or all of these responsive actions. If we were unable to pay the principal and interest on our credit facility or meet our other debt obligations, the lenders under our credit facility could terminate their commitments to extend further credit to us and accelerate a substantial part of our indebtedness. If that were to happen, we may not be able to repay all of the amounts that would become due under our indebtedness or refinance our debt. If we were unable to repay those amounts or refinance our debt, the lenders under our credit facility could proceed against the collateral granted to them to secure that indebtedness. If that were to happen, our results of operations and financial condition could be harmed and we might be forced to seek bankruptcy protection.

The terms of our credit facility may restrict our current and future operations, which would impair our ability to respond to changes in our business and to manage our business.

Our credit facility contains, and any future indebtedness of ours would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us, including restricting our ability to:

- incur, assume or guarantee additional debt;
- pay dividends or distributions or redeem or repurchase capital stock;
- incur or assume liens;
- make loans, investments and acquisitions;
- engage in sales of assets and subsidiary stock;
- enter into sale-leaseback transactions;
- enter into certain transactions with affiliates;
- complete dividends, loans or asset transfers from our subsidiaries;
- enter into new lines of business;
- prepay other indebtedness;
- transfer all or substantially all of our assets or enter into merger or consolidation transactions with another person; and
- make capital expenditures.

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Under the revolving credit facility, we are required to comply with a financial covenant that requires us and our subsidiaries to maintain a maximum leverage ratio so long as there is any indebtedness outstanding under the revolving credit facility (excluding letters of credit issued and outstanding of up to $15.0 million other than letters of credit that have been cash collateralized). Our ability to meet the leverage ratio can be affected by events beyond our control, and we may be unable to comply with it. Our failure to comply with this financial covenant or other restrictive covenants under our credit facility and other debt instruments could result in a default under our credit facility and/or other debt instruments, which in turn could result in the termination of the lenders' commitments to extend further credit to us under our revolving credit facility and acceleration of a substantial portion of our indebtedness then outstanding under our credit facility. If that were to happen, we may not be able to repay all of the amounts that would become due under our indebtedness or refinance our debt. If we were unable to repay those amounts or refinance our debt, the lenders under our credit facility could proceed against the collateral granted to them to secure that indebtedness. If that were to happen, our results of operations and financial condition could be harmed and we might be forced to seek bankruptcy protection.

Volatility in the financial and economic environment could harm our business.

Demand for our services is sensitive to changes in the level of overall economic activity in the markets in which we operate. During periods of weak economic conditions, employment levels tend to decrease, small business failures tend to increase and interest rates may become more volatile. Current or potential clients may also react to weak economic conditions or forecasted weak economic conditions by reducing their employee headcount or by lowering their wage, bonus or benefits levels, any of which would affect our revenues, and may affect our margins, because we may be unable to reduce our selling, administrative or other expenses sufficient to offset the drop in revenues. It is difficult for us to forecast future demand for our services due to the inherent difficulty in forecasting the direction and strength of economic cycles. These conditions may affect the willingness of our clients and potential clients to pay outside vendors for services like ours, and may impact their ability to pay their obligations to us on time, or at all. In addition, if businesses have difficulty obtaining credit, business growth and new business formation may be impaired, which could also harm our business. Even modest downturns in economic activity or the availability of credit on a regional or national level could harm our business.

If we fail to retain our key personnel or fail to attract additional skilled personnel, our business may suffer.

Our operations are dependent on the continued efforts of our officers and executive management and the performance and productivity of our regional managers and field personnel. Our ability to attract and retain business depends on the quality of our services and the relationships that we maintain with our clients. If we lose key personnel with significant experience in managing our business, this could impair our ability to deliver services effectively or profitably, could divert other senior management time in seeking replacements, and could adversely affect our reputation with our clients and potential clients. Some of our most important client relationships depend on the continued involvement of individual managers or sales personnel, and any loss of those individuals could jeopardize those relationships and in turn adversely affect our operating results.

Our future success will depend on our ability to attract, hire, train and retain highly skilled technical, sales and marketing and support personnel, particularly with expertise in outsourced solutions and the technology platforms that we deploy today and will deploy in the future. Qualified personnel are in great demand throughout the HR industry. Our failure to attract and retain the appropriate personnel may limit the rate at which we can expand our business, including developing new services and attracting new clients.

Improper disclosure of sensitive or confidential company, employee or client data, including personal data, could result in liability and harm our reputation.

Our business involves the use, storage and transmission of information about our corporate employees, WSEs and clients. This information includes sensitive or confidential data, such as employees' Social Security numbers, bank account numbers, retirement account information and medical information. We and our third-party service providers have established policies and procedures to help protect the security and privacy of this information, but it is possible that our security controls over sensitive or confidential data may not prevent the improper access to or disclosure of this information. Third parties, including vendors that provide services for our operations, could also be a source of security risk to us in the event of a failure of their own security systems and infrastructure. Any such disclosure could

harm our reputation and expose us to liability under our contracts and under the many and sometimes contradictory laws and regulations regarding data privacy in the various markets in which we operate. Any failure to adhere to applicable laws and regulations or to our contractual commitments with respect to the preservation and use of confidential information could result in legal liability and could damage our reputation.

Any failure in our business systems could reduce the quality of our business services, which could harm our reputation and expose us to liability.

Our business systems rely on the complex integration of numerous hardware and software subsystems to manage the transactions involved in managing the client relationship through the processing of employee, payroll and benefits data. These systems can be disrupted by, among other things, equipment failures, computer server or systems failures, network outages, malicious acts, software errors or defects, vendor performance problems and power failures. Any delay or failure in our systems that impairs our ability to communicate electronically with our clients, employees or vendors or our ability to store or process data could harm our reputation and our business. If we are unable to meet client demands or service expectations, we may lose existing clients and we may have difficulty attracting new clients. In addition, errors in our products and services, such as the erroneous denial of healthcare benefits or delays in making payroll, could expose our clients to liability claims from improperly serviced WSEs, for which we are contractually obligated to provide indemnification.

We have disaster recovery, business continuity, and crisis management plans and procedures designed to protect our business against a multitude of events, including natural disasters, military or terrorist actions, power or communication failures, or similar events. Despite our preparations, our plans may not be successful in preventing the loss of client data, service interruptions, and disruptions to our operations, or damage to our important facilities. The precautions that we have taken to protect ourselves against these types of events may prove to be inadequate. If we suffer damage to our data or operations centers, experience a telecommunications failure or experience a security breach, our operations could be interrupted. Any interruption or other loss may not be covered by our insurance and could harm our reputation.

If our systems were to fail for any of these reasons during payroll processing, preventing the proper payment of employees, or the proper remission of payroll taxes, we could be liable for wage payment delay penalties and payroll tax penalties, as well as other contractual penalties. Any inaccuracies in the processing of health insurance benefits could result in our being liable for lapses in insurance. If any of our systems fails to operate properly or becomes disabled even for a brief period of time, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention, or damage to our reputation.

Security breaches could compromise our data and the data of our clients and WSEs, exposing us to liability, which would cause our business and reputation to suffer.

Our ability to ensure secure electronic processing, maintenance and transmission of payroll, insurance and other sensitive client and WSE information is critical to our operations. We rely on standard internet and other security systems to provide the security and authentication necessary to effect secure transmission of data. Despite our security measures, our information technology and infrastructure may be vulnerable to cybersecurity threats, including attacks by hackers and other malfeasance. Any such security breach could compromise our networks and result in the information stored or transmitted there to be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings leading to liability, including under laws that protect the privacy of personal information, disrupt our operations and the services we provide to our clients, damage our reputation and cause a loss of confidence in our products and services, which could adversely affect our business, operations and competitive position.

In the course of providing our services to our clients, we also rely on certain third-party service providers and products, such as insurance carriers, to process information related to our clients and WSEs. Through contractual provisions, we take steps to require that our service providers protect sensitive information. However, we cannot provide assurances as to the security steps taken by such providers. Any security breach or other disruption of our third-party service providers that results in an inadvertent disclosure or loss of confidential information could adversely affect our reputation and our business.

We must keep pace with rapid technological change in order to succeed.

Our business depends upon the use of software, hardware and networking technologies that must be frequently and rapidly upgraded in response to technological advances, competitive pressures and consumer expectations. To succeed, we will need to effectively develop or license and integrate these new technologies as they become available to improve our services commensurate with client requirements. In particular, we rely on enterprise software

applications licensed from third parties that are upgraded from time to time, such as PeopleSoft HR information systems and Oracle databases, that provide the basis for our HR information system platform supporting payroll, benefits and other HR functions. Any difficulties we encounter in adapting applications upgrades to our systems could harm our performance or delay or prevent the successful development, introduction or marketing of new services. New products or upgrades may not be released according to schedule, or may contain defects when released. Difficulties in integrating new technologies could result in adverse publicity, loss of sales, delay in market acceptance of our services, or client claims against us, any of which could harm our business. We could also incur

substantial costs in modifying our services or infrastructure to adapt to these changes. In addition, we could lose market share if our competitors develop technologically superior products and services.

Our co-employment relationship with our worksite employees exposes us to business risks.

We are a co-employer of our WSEs, and there is a possibility that we may be subject to liability for violations of employment laws by our clients and acts or omissions of our WSEs, who may be deemed to be our agents, even if we do not participate in any such acts or violations. Such laws include, but are not limited to, laws relating to payment of wages, employment discrimination, labor relations and whistleblower protection. Although our client agreements establish the contractual division of responsibilities between us and our clients for various personnel management matters, including compliance with and liability under various governmental regulations, as well as providing for clients to indemnify us for any liability attributable to clients' or their employees' conduct, we may not be able to effectively enforce or collect these contractual obligations with our clients, which could harm our business. We maintain employment practices liability insurance coverage (including coverage for our clients) to manage our and our clients' exposure for various employee-related claims, and as a result, our incurred costs with respect to this exposure have historically been insignificant to our operating results. Employment practices liability insurance generally excludes coverage for claims relating to compliance with laws associated with the classification of employees as exempt or non-exempt, such as overtime pay and minimum wage law compliance. We cannot assure you that our insurance will be sufficient in amount or scope to cover all claims that may be asserted against us and for which we are unable to obtain indemnification from our clients. If judgments or settlements related to WSEs that we and our clients employ exceed our insurance coverage, it could harm our results of operations and financial condition. We cannot assure you that we will be able to obtain appropriate types and levels of insurance in the future, that we will be able to replace existing policies on acceptable terms, or at all, or that our insurers will be able to pay all claims that we may make under our policies, any of which could harm our business.

Our failure to maintain or enhance our reputation or brand recognition could harm our business.

We believe that maintaining and enhancing our reputation and the TriNet brand identity is critical to maintaining our relationships with our clients and vendors and our ability to attract new clients and vendors. We also believe that our reputation and brand identity will become more important as competition in our industry continues to develop. Our ability to maintain and enhance our reputation and brand identity will be affected by a number of factors, some of which are beyond our control, including:

- the effectiveness of our marketing efforts;
- our ability to attract and retain new sales personnel to expand our direct sales force;
- our ability to retain our existing clients and attract new clients;
- the quality and perceived value of our services;
- our ability to successfully differentiate our services from those of our competitors;
- actions of our competitors and other third parties;
- positive or negative publicity about us or our industry in general;
- interruptions, delays or attacks on our website; and
- litigation or regulatory developments.

Any brand promotion activities in which we engage may not be successful or yield increased revenues. Furthermore, negative publicity, whether or not justified, relating to events or activities attributed to us, our corporate employees, our WSEs, our vendors, other companies in our industry or others associated with any of these parties, may tarnish our reputation and reduce the value of our brand. Damage to our reputation and loss of brand equity may reduce demand for our services and harm our business, results of operations and financial condition. Moreover, any attempts to rebuild our reputation and restore the value of our brand may be costly and time-consuming, and any such efforts may not ultimately be successful.

If we are unable to protect our intellectual property, or if we infringe on the intellectual property rights of others, our business may be harmed.

Our success depends in part on intellectual property rights to the services that we develop. We rely on a combination of contractual rights, including non-disclosure agreements, trade secrets, copyrights and trademarks, to establish and protect our intellectual property rights in our names, services, methodologies and related technologies. If we lose

intellectual property

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protection or the ability to secure intellectual property protection on any of our names, confidential information or technology, this could harm our business. Our intellectual property rights may not prevent competitors from independently developing services and methodologies similar to ours, and the steps we take might be inadequate to deter infringement or misappropriation of our intellectual property by competitors, former employees or other third parties, any of which could harm our business. We currently have one pending U.S. patent application covering our technology. We own registered trademarks in the United States, Canada and the European Union that have various expiration dates unless renewed through customary processes. Our trademark registrations may be unenforceable or ineffective in protecting our trademarks. Our trademarks may be unenforceable in countries outside of the United States, which may adversely affect our ability to build our brand outside of the United States.

Although we believe that our conduct of our business does not infringe on the intellectual property rights of others, third parties may nevertheless assert infringement claims against us in the future. We may be required to modify our products, services, internal systems or technologies, or obtain a license to permit our continued use of those rights. We may be unable to do so in a timely manner, or upon reasonable terms and conditions, which could harm our business. In addition, future litigation over these matters could result in substantial costs and resource diversion. Adverse determinations in any litigation or proceedings of this type could subject us to significant liabilities to third parties and could prevent us from using some of our services, internal systems or technologies.

Our use of open source software could subject us to possible litigation.

A portion of our technologies incorporates open source software, and we expect to continue to incorporate open source software into our platform in the future. Few of the licenses applicable to open source software have been interpreted by courts, and their application to the open source software integrated into our proprietary technology platform may be uncertain. If we fail to comply with these licenses, then pursuant to the terms of these licenses, we may be subject to certain requirements, including requirements that we make available the source code for our software that incorporates the open source software. We cannot assure you that we have not incorporated open source software in our software in a manner that is inconsistent with the terms of the applicable licenses or our current policies and procedures. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could incur significant legal expenses defending against such allegations. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our technology platform.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting and, beginning with our annual report for the year ending December 31, 2015, provide a management report on our internal control over financial reporting. This report must be attested to by our independent registered public accounting firm. If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated.

We and our independent registered public accounting firm have previously identified material weaknesses in our internal control over financial reporting. Although we believe we have eliminated these material weaknesses, we cannot assure you that we have identified all of our existing material weaknesses, or that we will not in the future have additional material weaknesses. If other material weaknesses or other significant control deficiencies are identified or occur, our ability to accurately and timely report our financial results could be impaired, which could result in late filings of our annual and quarterly reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock from the New York Stock Exchange, or NYSE, and could adversely affect our reputation, results of operations and financial condition.

We are in the process of designing and implementing our internal control over financial reporting, which process will be time consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting in the future, we are unable to comply with the requirements of Section 404 in a timely manner, we are unable to assert that our internal control over financial reporting is effective or our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting when required to do so, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the

Securities and Exchange Commission, or SEC, or other regulatory authorities, which could require additional financial and management resources.

We incur substantial increased costs as a result of being a public company.

As a public company, we incur significant levels of legal, accounting and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the NYSE and other applicable securities rules and regulations. Compliance with these rules and regulations has increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and results of operations. Although we have already hired additional corporate employees to comply with these requirements, we may need to hire more corporate employees in the future or engage outside consultants, which would increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

As a result of disclosure of information in this report and the other filings that we are required to make as a public company, our business, results of operations and financial condition are more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If any such claims are successful, our business, results of operations and financial condition could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business, results of operations and financial condition.

We may be involved in legal proceedings that may result in adverse outcomes.

In addition, we may be involved in claims, suits, government investigations, and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, privacy, data protection or law enforcement matters, tax matters, labor and employment claims, commercial claims, purported class action lawsuits, and other matters. Such claims, suits, government investigations, and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, such legal proceedings can have an adverse impact on us because of legal costs, diversion of management and other personnel, and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in liability, penalties, or sanctions, as well as judgments, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, or requiring a change in our business practices, products or technologies, which could in the future materially and adversely affect our business, operating results, and financial condition. See Part II, Item 1, "Legal Proceedings" above for additional information about the legal proceedings we may face.

Risks Related to Ownership of Our Common Stock

Our stock price may be volatile or may decline regardless of our operating performance, resulting in substantial losses for our stockholders.

The market price of our common stock has been, and is likely to continue to be, volatile for the foreseeable future. Since shares of our common stock were sold in our initial public offering in March 2014 at a price of $16.00 per share, the daily closing price of our common stock has ranged from $16.33 to $37.88 per share through September 30, 2015. The market price

of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the factors listed below and other factors described in this "Risk Factors" section:

- actual or anticipated fluctuations in our results of operations;
- any financial projections we provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;
- announcements by us or our competitors of significant innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in operating performance and stock market valuations of other business services companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- changes in our board of directors or management;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
- lawsuits threatened or filed against us;
- short sales, hedging and other derivative transactions involving our capital stock;
- general economic conditions in the United States and abroad; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many business services companies. Stock prices of many business services companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. Securities litigation could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business, results of operations and financial condition.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

We may issue additional shares of common stock or securities convertible into shares of our common stock in one or more transactions and at prices and in a manner as we may determine from time to time. Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that such sales may have on the prevailing market price of our common stock.

As of September 30, 2015, there were 4,709,850 shares of common stock subject to outstanding options, 828,892 shares of common stock issuable upon settlement of restricted stock units and 173,286 shares of common stock issuable upon settlement of performance-based restricted stock units. We have registered all of the shares of common stock issuable upon exercise of these outstanding options and settlement of these outstanding restricted stock units, and upon exercise or settlement of any options or other equity incentives we may grant in the future, as well as the shares we have reserved for future issuance under our Employee Stock Purchase Plan, or ESPP, for public resale under the Securities Act of 1933, as amended. Accordingly, these shares are eligible for sale in the public market to the extent such options are exercised or such restricted stock units settle, or such shares are purchased pursuant to our ESPP, subject to compliance with applicable securities laws.

As of September 30, 2015, the holders of 20,091,312 shares of common stock have rights, subject to some conditions, to require us to file registration statements for the public resale of such shares or to include such shares in registration statements that we may file for TriNet or our stockholders.

The existing ownership of capital stock by our executive officers, directors and their affiliates has the effect of concentrating voting control with our executive officers, directors and their affiliates for the foreseeable future, which limits your ability to influence corporate matters.

As of September 30, 2015, funds affiliated with General Atlantic, our largest stockholder, beneficially own approximately 28.7% of our outstanding common stock, and all of our directors, officers and their affiliates, including the funds affiliated with General Atlantic, beneficially own, in the aggregate, approximately 41.2% of our outstanding common stock. As a result, these stockholders will be able to determine substantially all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit the ability of other stockholders to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

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

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

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and bylaws include provisions that:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- permit our board of directors to establish the number of directors;
- provide that directors may only be removed “for cause”;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that our board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for our stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any holder of at least 15% of our capital stock for a period of three years following the date on which the stockholder became a 15% stockholder.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
(a) Sales of Unregistered Securities
Not applicable.
(b) Issuer Purchases of Equity Securities
The following table provides information about our purchases of TriNet common stock during the quarter ended September 30, 2015:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans (1)
July 1 - July 31, 2015	—	—	—	$ 50,000,017
August 1 - August 31, 2015	1,000,000	$ 18.34	1,000,000	$ 31,637,881
September 1 - September 30, 2015	—	—	—	$ 31,637,881
Total	1,000,000			

(1) In May 2014, our board of directors authorized a program to repurchase in the aggregate up to $15 million of our outstanding common stock. In November 2014, our board of directors approved a $30 million increase to our ongoing stock repurchase program, authorizing us to repurchase in the aggregate up to $45 million of our outstanding common stock. We repurchased approximately $15 million of our outstanding common stock during 2014 and approximately $48.4 million of our outstanding common stock during the nine months ended September 30, 2015. On June 29, 2015, our board of directors approved the repurchase of an additional $50 million of our outstanding common stock in the aggregate under the existing stock repurchase program. As of September 30, 2015 we had approximately $31.6 million remaining for repurchases. Stock repurchases under the program are intended to offset the dilutive effect of share-based employee incentive compensation.

Item 3. Defaults Upon Senior Securities.
Not applicable
Item 4. Mine Safety Disclosures.
Not applicable
Item 5. Other Information
Not applicable
Item 6. Exhibits
A list of exhibits filed with this report or incorporated herein by reference is found in the Exhibit Index immediately following the signature page of this report and is incorporated into this Item 6 by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRINET GROUP, INC.

Date: November 5, 2015	By: /s/ Burton M. Goldfield Burton M. Goldfield Chief Executive Officer
Date: November 5, 2015	By: /s/ William Porter William Porter Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of TriNet Group, Inc.	8-K	001-36373	3.1	4/1/2014	
3.2	Amended and Restated Bylaws of TriNet Group, Inc.	S-1/A	333-192465	3.4	3/4/2014	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					
101.SCH	XBRL Taxonomy Extension Schema Linkbase Document					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					

* Document has been furnished, is deemed not filed and is not to be incorporated by reference into any of TriNet Group, Inc.'s filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in any such filing.