

TRINET GROUP INC  
Form 10-Q  
May 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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 (I.R.S. Employer

incorporation or organization) 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

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

Indicate by check mark whether the registrant has submitted electronically 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  No

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

Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

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

As of April 30, 2015, the registrant had 70,212,084 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)

	March 31, 2015	December 31, 2014
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 104,401	\$ 134,341
Restricted cash	14,546	14,543
Prepaid income taxes	10,411	26,711
Prepaid expenses	10,001	9,336
Deferred loan costs and other current assets	4,570	4,271
Worksite employee related assets	922,619	1,635,136
Total current assets	1,066,548	1,824,338
Workers compensation receivable	54,130	31,905
Restricted cash and investments	73,964	69,447
Property and equipment, net	33,769	32,298
Goodwill	288,857	288,857
Other intangible assets, net	70,501	81,718
Deferred and other long term income taxes	21,586	7,184
Deferred loan costs and other assets	10,860	12,017
Total assets	\$ 1,620,215	\$ 2,347,764
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	\$ 11,182	\$ 12,273
Accrued corporate wages	27,415	29,179
Deferred income taxes	65,713	65,713
Current portion of notes payable and borrowings under capital leases	20,305	20,738
Other current liabilities	10,784	10,303
Worksite employee related liabilities	915,985	1,630,555
Total current liabilities	1,051,384	1,768,761
Notes payable and borrowings under capital leases, less current portion	494,533	524,412
Workers compensation liabilities	82,748	75,448
Other liabilities	6,649	4,902
Total liabilities	1,635,314	2,373,523
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock, \$.000025 per share stated value; 20,000,000 shares authorized;		
no shares issued and outstanding at March 31, 2015 and December 31, 2014	—	—
Common stock, \$.000025 per share stated value; 750,000,000 shares authorized;	462,655	442,682

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70,076,978 and 69,811,326 shares issued and outstanding at March 31, 2015

and December 31, 2014, respectively

Accumulated deficit	(477,341 )	(468,127 )
Accumulated other comprehensive loss	(413 )	(314 )
Total stockholders' deficit	(15,099 )	(25,759 )
Total liabilities and stockholders' deficit	\$1,620,215	\$ 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 March 31,	
	2015	2014
Professional service revenues	\$ 97,016	\$ 82,875
Insurance service revenues	528,562	426,037
Total revenues	625,578	508,912
Costs and operating expenses:		
Insurance costs	483,203	381,157
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	36,370	33,643
Sales and marketing	37,624	31,837
General and administrative	15,464	14,337
Systems development and programming costs	7,225	5,894
Amortization of intangible assets	11,217	13,549
Depreciation	3,434	3,218
Total costs and operating expenses	594,537	483,635
Operating income	31,041	25,277
Other income (expense):		
Interest expense and bank fees	(5,204 )	(21,852 )
Other, net	450	103
Income before provision for income taxes	26,287	3,528
Provision for income taxes	10,476	1,988
Net income	\$ 15,811	\$ 1,540
Net income per share:		
Basic	\$ 0.23	\$ 0.03
Diluted	\$ 0.22	\$ 0.03
Weighted average shares:		
Basic	70,198,184	16,775,513
Diluted	73,350,219	19,397,777

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income	\$ 15,811	\$ 1,540
Other comprehensive income (loss), net of tax		
Unrealized gains on investments	37	16
Foreign currency translation adjustments	(136 )	(42 )
Total other comprehensive loss, net of tax	(99 )	(26 )
Comprehensive income	\$ 15,712	\$ 1,514

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
<b>Operating activities</b>		
Net income	\$ 15,811	\$ 1,540
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,741	22,028
Deferred income taxes	—	1,412
Stock-based compensation	3,920	2,147
Excess tax benefit from equity incentive plan activity	(12,853 )	(1,753 )
Accretion of workers compensation and leases fair value adjustment	(88 )	(347 )
Changes in operating assets and liabilities:		
Restricted cash	(4,520 )	(3,961 )
Prepaid expenses and other current assets	(2,181 )	(1,411 )
Workers compensation receivables	(22,100 )	3,379
Other assets	(13,259 )	4,033
Accounts payable	(1,352 )	2,078
Income tax payable/receivable	29,153	(3,789 )
Other current liabilities	(211 )	1,532
Other liabilities	9,110	4,869
Worksite employee related assets	712,517	108,637
Worksite employee related liabilities	(714,570 )	(110,057 )
Net cash provided by operating activities	14,118	30,337
<b>Investing activities</b>		
Purchase of debt securities	—	(1,000 )
Purchase of property and equipment	(4,644 )	(5,064 )
Net cash used in investing activities	(4,644 )	(6,064 )
<b>Financing activities</b>		
Proceeds from issuance of common stock, net of issuance costs	—	218,859
Proceeds from issuance of common stock on exercised options	3,199	494
Excess tax benefit from equity incentive plan activity	12,853	1,753
Repayment of notes payable	(30,125 )	(216,575 )
Repayments under capital leases	(180 )	(66 )
Repurchase of common stock	(25,025 )	(451 )
Net cash provided by (used in) financing activities	(39,278 )	4,014
Effect of exchange rate changes on cash and cash equivalents	(136 )	(42 )
Net increase (decrease) in cash and cash equivalents	(29,940 )	28,245
Cash and cash equivalents at beginning of period	134,341	94,356
Cash and cash equivalents at end of period	\$ 104,401	\$ 122,601
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	\$ (3,872 )	\$ (9,093 )



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Cash received (paid) for income taxes, net	\$ 4,357	\$ (4,352 )
Supplemental schedule of noncash investing and financing activities		
Payable for purchase of property and equipment	\$ 1,034	\$ 632

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 the Annual Report that have had a material impact on our 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. The results of the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

#### Seasonality

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 service providers tend to do so at the beginning of a calendar year. In addition, the Company experiences higher levels of client attrition 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. These historical trends may change, and other seasonal trends 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 January 2015, the FASB issued Accounting Standards Update (ASU) 2015-01— Income Statement-Extraordinary and Unusual Items, as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). ASU 2015-01 became effective on January 9, 2015. The amendment eliminates from GAAP the concept of extraordinary items. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted this guidance in 2014. The adoption did not have an effect on the consolidated financial statements.

In November 2014, the FASB issued ASU 2014-17— Business Combinations, which provides an acquired entity with an option to apply pushdown accounting in its financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. ASU 2014-17 became effective on November 28, 2014. An acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The Company adopted this guidance in 2014. The adoption did not have an effect on the 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 early adopt this guidance and does not believe that the adoption of this guidance will have a material impact 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. ASU 2014-09 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The amendments may be applied retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company expects to adopt this guidance in 2017. 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):

	March 31, 2015	December 31, 2014
<b>Worksite employee-related assets:</b>		
Restricted cash	\$ 78,763	\$ 64,890
Restricted investment	2,441	4,555
Payroll funds collected	502,306	1,336,994
Unbilled revenue, net of advance collections of \$59,877 and \$113,190 at March 31, 2015 and December 31, 2014, respectively	309,327	203,599
Accounts receivable, net of allowance for doubtful accounts of \$288 and \$388 at March 31, 2015 and December 31, 2014, respectively	11,253	5,193
Prepaid health plan expenses	5,527	4,932
Refundable workers compensation premiums	5,385	7,975
Prepaid workers compensation expenses	1,562	1,256
Other payroll assets	6,055	5,742
<b>Total worksite employee-related assets</b>	<b>\$ 922,619</b>	<b>\$ 1,635,136</b>
<b>Worksite employee-related liabilities:</b>		
Unbilled wages accrual	\$ 345,955	\$ 292,906
Payroll taxes payable	326,665	1,119,427
Health benefits payable	105,235	104,220
Customer prepayments	48,549	53,770
Workers compensation payable	61,591	36,778
Other payroll deductions	27,990	23,454
<b>Total worksite employee-related liabilities</b>	<b>\$ 915,985</b>	<b>\$ 1,630,555</b>

## 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 liability for unpaid claims and claims adjustment expenses (in thousands):

	Three months ended March 31, 2015	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	19,865	61,669
Prior years	2,736	(4,725 )
Total incurred	22,601	56,944
Paid related to:		
Current year	(5,947 )	(13,525 )
Prior years	(3,312 )	(9,623 )
Total paid	(9,259 )	(23,148 )
Liability for unpaid claims and claims adjustment at end of period	105,748	92,406
Other premiums and collateral liabilities	38,591	19,820
Total workers compensation liabilities at end of period	\$144,339	\$112,226
Current portion included in worksite employee-related liability	61,591	36,778
Long term portion	\$82,748	\$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 March 31, 2015 and December 31, 2014, such restricted amounts of \$44.2 million and \$36.5 million, respectively, are presented as restricted cash and restricted investment within WSE-related assets in the accompanying consolidated balance sheets. In addition at March 31, 2015 and December 31, 2014, \$74.0 million and \$69.4 million, respectively, are presented as restricted long-term investments.

## NOTE 4. PROPERTY AND EQUIPMENT, NET

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

	March 31, 2015	December 31, 2014
Software	\$53,939	\$ 53,349
Office equipment, including data processing equipment	18,458	18,550
Leasehold improvements	9,341	7,092
Furniture, fixtures, and equipment	6,507	6,450
Projects in progress	8,508	6,786
	96,753	92,227
Accumulated depreciation	(62,984)	(59,929 )
Property and equipment, net	\$33,769	\$ 32,298

Software and furniture, fixtures, and equipment include amounts for assets under capital leases of \$1.2 million and \$1.4 million at March 31, 2015 and December 31, 2014, respectively. Accumulated depreciation of these assets was \$0.9 million and \$0.9 million at March 31, 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 \$1.1 million and \$1.6 million for the three months ended March 31, 2015 and 2014, respectively. Accumulated depreciation for these assets was \$30.5 million and \$29.4 million at March 31, 2015 and December 31, 2014, respectively.

## NOTE 5. MARKETABLE SECURITIES AND FAIR VALUE MEASUREMENTS

The Company's noncurrent restricted cash and investments include \$50.5 million of available-for-sale marketable securities and \$23.5 million of cash collateral at March 31, 2015. The Company's restricted investments within WSE-related assets include \$0.1 million of available-for-sale marketable securities and \$2.3 million of certificates of deposit as of March 31, 2015. The available-for-sale marketable securities as of March 31, 2015 and December 31, 2014 consist of the following (in thousands):

	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Amortized Cost			



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March 31, 2015:				
U.S. treasuries	\$ 50,011	\$ 67	\$ —	\$ 50,078
Mutual funds	500	8	—	508
Total investments	\$ 50,511	\$ 75	\$ —	\$ 50,586
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 three months ended March 31, 2015 and 2014. As of March 31, 2015 and December 31, 2014, the contractual maturities of the U.S. treasuries were two to three years.

As of March 31, 2015, certain of the Company's U.S. treasuries were in unrealized loss position, all for a period of less than 12 months. These unrealized losses are principally due to changes in interest rates and credit spreads. 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 1.6% and 59% of the total fair value of all securities available for sale and their unrealized losses were de minimis as of March 31, 2015 and December 31, 2014. As the Company has the ability 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.

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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. On a recurring basis, the Company measures its financial assets at 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
<b>March 31, 2015:</b>				
Certificates of deposit	\$2,318	\$2,318	\$ —	\$ —
U.S. treasuries	50,078	50,078	—	—
Mutual funds	508	508	—	—
<b>Total</b>	<b>\$52,904</b>	<b>\$52,904</b>	<b>\$ —</b>	<b>\$ —</b>
<b>December 31, 2014:</b>				
Certificates of deposit	\$2,318	\$2,318	\$ —	\$ —
U.S. treasuries	50,082	50,082	—	—
Mutual funds	506	506	—	—
Interest rate cap	1	-	1	—
<b>Total</b>	<b>\$52,907</b>	<b>\$52,906</b>	<b>\$ 1</b>	<b>\$ —</b>

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

As of March 31, 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 book 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 March 31, 2015 and December 31, 2014, the carrying value of our notes payable of \$514.7 million and \$544.9 million, respectively, approximated fair value. The estimated fair values of our 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 6. 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):

	March 31, 2015	December 31, 2014
Notes payable under credit facility	\$ 514,740	\$ 544,875
Capital leases	98	275
Less current portion	(20,305 )	(20,738 )
	\$ 494,533	\$ 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.

On July 9, 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 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.

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 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 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 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 March 31, 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 5.00 to 1.00. The Company was in compliance with the restrictive covenants under the credit facilities at March 31,

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 7: STOCKHOLDERS' EQUITY

### Common Stock

Upon closing of the IPO on March 31, 2014, the Company issued 15,000,000 shares of common stock at a public offering price of \$16 per share, for an aggregate offering price of \$240 million, resulting in net proceeds to the Company of \$217.8 million, after deducting the underwriting discount of approximately \$16.8 million and offering expenses of approximately \$5.6 million.

In February 2014, the Company issued 91,074 shares to a member of the Board of Directors at \$10.98 per share, which was the then estimated fair market value, for an aggregate of \$1 million in cash.

### 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 amended 2009 Plan 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, 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 also 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 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 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.

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Equity incentive plan activity under the 2000 Plan and the 2009 Plan for the three months ended March 31, 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	(1,178,751)
Forfeited	343,126
Expired	—
Balance at March 31, 2015	5,014,408

The following table summarizes stock option activity under the Company's equity-based plans for the three months ended March 31, 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	272,200	33.51		
Exercised	(990,821 )	3.34		
Forfeited	(342,626 )	6.45		
Expired	—	—		
Balance at March 31, 2015	5,831,563	\$ 7.87	8.15	159,577
Exercisable at March 31, 2015	1,802,963	\$ 4.02	7.52	56,279
Vested and expected to vest at March 31, 2015	5,509,233	\$ 7.51	8.12	\$ 152,709

The weighted-average grant date fair value of stock options granted in each of the three months ended March 31, 2015 and March 31, 2014 was \$13.55 and \$6.18 per share, respectively. The total fair value of options vested for the three months ended March 31, 2015 and March 31, 2014 was \$4.4 million and \$3.4 million, respectively.

The total intrinsic value of options exercised for the three months ended March 31, 2015 and March 31, 2014 was \$30.2 million and \$6.2 million, respectively. Cash received from options exercised during the three months ended March 31, 2015 and March 31, 2014 was \$3.2 million and \$0.5 million, respectively. The exercise price of all options granted was equal to the fair value of the common stock on the date of grant.



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As of March 31, 2015, unrecognized compensation expense, net of forfeitures, associated with nonvested options outstanding was \$22.4 million and is expected to be recognized over a weighted-average period of 2.02 years.

The following table summarizes RSUs activity under the Company's equity-based plans for the three months ended March 31, 2015:

Restricted Stock Unit Activity	Number of Units	Weighted-Average
		Grant Date Fair Value
Nonvested at December 31, 2014	7,750	\$ 13.21
Granted	733,265	\$ 33.49
Vested	(750 )	\$ 13.21
Forfeited	(500 )	\$ 33.51
Nonvested at March 31, 2015	739,765	\$ 33.30

The total grant date fair value of RSUs granted in the three months ended March 31, 2015 was \$24.6 million. The total grant date fair value of RSUs vested in the three months ended March 31, 2015 was de minimis. As of March 31, 2015, unrecognized compensation expense, net of forfeitures, associated with the nonvested RSUs outstanding was \$23.9 million, and is expected to be recognized over a weighted-average period of 3.68 years.

The following table summarizes PSUs activity under the Company's equity-based plans for the three months ended March 31, 2015:

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

The maximum total grant date fair value of PSUs granted in the three months ended March 31, 2015 was \$5.8 million, assuming maximum 200% performance target is met. As of March 31, 2015, unrecognized compensation expense assuming a 100% performance target is met, net of forfeitures, was \$2.5 million, and is expected to be recognized over a weighted-average period of 2.75 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. We commenced our 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 that ended November 14, 2014. Employees may contribute a minimum of 1% and a maximum of 15% of their earnings.

#### Stock Repurchases

During the three months ended March 31, 2015, the Company repurchased 725,624 shares of outstanding common stock for \$25.0 million. As of March 31, 2015, a total of approximately \$5.0 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 \$3.9 million and \$2.1 million was recognized for the three months ended March 31, 2015 and 2014, respectively. Income tax benefit of \$1.2 million and \$0.6 million was recognized relating to stock-based compensation expense for the three months ended March 31, 2015 and 2014, respectively. The actual tax benefit realized from stock options exercised was \$10.2 million and \$2.4 million for the three months ended March 31, 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 March 31,

	2015		2014	
Expected term (in years)	6.08		6.05	
Expected volatility	39	%	58	%
Risk-free interest rate	1.74	%	1.80	%
Expected dividend yield	0	%	0	%

ESPP Assumptions Three Months Ended March 31,

	2015		2014	
Expected term (in years)	0.5		n/a	
Expected volatility	33	%	n/a	
Risk-free interest rate	0.07	%	n/a	
Expected dividend yield	0	%	n/a	

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

	Three Months Ended March 31,	
	2015	2014
Cost of providing services	\$ 758	\$ 454
Sales and marketing	917	517
General and administrative	2,021	1,008
Systems development and programming costs	224	168
	\$ 3,920	\$ 2,147

NOTE 8: 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 March 31,	
	2015	2014
Numerator (basic)		
Net income	\$ 15,811	\$ 1,540
Less net income allocated to participating securities	—	(1,065 )
Net income attributable to common stock	\$ 15,811	\$ 475
Denominator (basic)		
Weighted average shares of common stock outstanding	70,198	16,776
Basic EPS	\$ 0.23	\$ 0.03
Numerator (diluted)		
Net income	\$ 15,811	\$ 1,540
Less net income allocated to participating securities	—	(1,016 )
Net income attributable to common stock	\$ 15,811	\$ 524
Denominator (diluted)		

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Weighted average shares of common stock	70,198	16,776
Dilutive effect of stock options and restricted stock units	3,152	2,622
Weighted average shares of common stock outstanding	73,350	19,398
Diluted EPS	\$ 0.22	\$ 0.03
Common stock equivalents excluded from income per diluted share		
because of their anti-dilutive effect	522	1,511

NOTE 9. INCOME TAXES

The Company is subject to 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 39.9% and 56.4% for the three months ended March 31, 2015 and 2014, respectively. The decrease is primarily due to a discrete benefit from disqualifying dispositions of previously non-deductible stock-based compensation as well as a discrete expense recorded in the three months ended March 31, 2014 related to a regulatory state tax change.

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 10. 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 March 31, 2015 and 2014 was \$3.1 million and \$2.7 million, respectively.

##### Operating Covenants

To meet various states' licensing requirements and maintain accreditation by Employer Services Assurance Corporation, the Company is subject to various minimum working capital and net worth requirements. As of March 31, 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

The Company may from time to time become involved in various litigation matters arising in the ordinary course of business, including suits by its clients. The unfavorable resolution of any such matter could have a material effect on the Company's consolidated financial position and results of operations.

Due to the nature of the Company's relationship with its 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 clients contain indemnification provisions related to the conduct of its clients, the Company historically has not encountered situations requiring enforcement of these indemnification provisions.

The Company has been named as a defendant in various class action lawsuits arising from the nature of our relationship with our WSEs. Management is currently unable to estimate a possible loss or range of loss for these class action lawsuits. However, at this stage of the lawsuits, management currently believes that none of the pending legal proceedings or claims is reasonably likely to have a material adverse effect on our financial position, results of operations or cash flows. Nevertheless, regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors. In addition, if one or more of these legal matters were resolved against the Company in a way contrary to management's expectations, our consolidated financial statements could be materially adversely affected.

## 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 Form 10-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," "expect," "intend," "may," "plan," "project," "seek," "should," "strategy," "target," "will," "would" and similar expressions or variations thereof to 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 clients' 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 March 31, 2015, we served over 11,000 clients in all 50 states, the District of Columbia and Canada and co-employed approximately 289,000 WSEs.



Our total revenues consist of professional service revenues and insurance service revenues. For each of the three months ended March 31, 2015 and 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 March 31, 2015 and 2014, 68% and 65% of our Net Service Revenues, respectively, consisted of professional service revenues and 32% and 35% 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 March 31, 2015 and 2014, our sales and marketing expenses were \$37.6 million and \$31.8 million, respectively, or 6% and 6% of our total revenues and 26% and 25% 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 March 31, 2015 and 2014, our systems development and programming costs were \$7.2 million and \$5.9 million, respectively, in each case representing 1% of our total revenues and 5% of our Net Service Revenues, respectively.

#### 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. Our operations could be adversely impacted if our strategic acquisitions are not integrated effectively. 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, we have acquired 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. These acquisitions have resulted in increased revenues and costs, as described below in our results of operations. We expect to continue to pursue strategic acquisitions.

#### 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 month periods ended March 31, 2015 and 2014 were as follows:

	Three Months Ended March 31,	
	2015	2014
Net Insurance Service Revenues (in thousands)	\$ 45,359	\$ 44,880
Net Service Revenues (in thousands)	\$ 142,375	\$ 127,755
Total WSEs	288,817	241,944
Total Sales Representatives	408	336

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 Health 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.

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 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, which has negatively impacted our insurance costs in these quarters. We have also experienced variability on a quarterly basis in the level of our insurance claims based on the unpredictable nature of large claims. 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 and stock-based compensation expense. We define Adjusted Net Income as net income, excluding the effects of stock-based compensation, amortization of intangible assets, non-cash interest expense, debt prepayment premium and, the income tax effect of these pre-tax adjustments at our effective tax rate. For purposes of our non-GAAP financial presentation, as a result of a 2015 increase in New York City tax rates, we have adjusted the effective tax rate to 40.5% and 39.5%, for the three months ended March 31, 2015 and 2014, respectively, to 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 March 31,	
	2015	2014
	(in thousands)	
Insurance service revenues	\$ 528,562	\$ 426,037
Less: Insurance costs	483,203	381,157
Net Insurance Service Revenues	\$ 45,359	\$ 44,880

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Total revenues	\$ 625,578	\$ 508,912
Less: Insurance costs	483,203	381,157
Net Service Revenues	\$ 142,375	\$ 127,755

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Net income	\$ 15,811	\$ 1,540
Provision for income taxes	10,476	1,988
Stock-based compensation	3,920	2,147
Interest expense and bank fees	5,204	21,852
Depreciation	3,434	3,218
Amortization of intangible assets	11,217	13,549
Adjusted EBITDA	\$ 50,062	\$ 44,294

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Net income	\$ 15,811	\$ 1,540
Effective income tax rate adjustment	(170 )	595
Stock-based compensation	3,920	2,147
Amortization of intangible assets	11,217	13,549
Non-cash interest expense	1,217	6,106
Debt prepayment premium	—	3,800
Income tax impact of pre-tax adjustments	(6,623 )	(10,113 )
Adjusted Net Income	\$ 25,372	\$ 17,624

## 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.

#### 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 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 months ended March 31, 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 the Company's 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 January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-01— Income Statement - Extraordinary and Unusual Items, as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). ASU 2015-01 became effective on January 9, 2015. The amendment eliminates from GAAP the concept of extraordinary items. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted this guidance in 2014. The adoption did not have an effect on the consolidated financial statements.

In November 2014, the FASB issued ASU 2014-17— Business Combinations, which provides an acquired entity with an option to apply pushdown accounting in its financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. ASU 2014-17 became effective on November 28, 2014. An acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The Company adopted this guidance in 2014. The adoption did not have an effect on the

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 early adopt this guidance and do not believe that the adoption of this guidance will have a material impact 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.

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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. ASU 2014-09 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The amendments may be applied retrospectively or as a cumulative-effect adjustment as of the date of adoption. We expect to adopt this guidance in 2017. 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 March 31,	
	2015	2014
(in thousands)		
Consolidated Statement of Operations:		
Professional service revenues	\$ 97,016	\$ 82,875
Insurance service revenues	528,562	426,037
Total revenues	625,578	508,912
Costs and operating expenses:		
Insurance costs	483,203	381,157
Cost of providing services (exclusive of depreciation and amortization of intangible assets) <sup>(1)</sup>	36,370	33,643
Sales and marketing <sup>(1)</sup>	37,624	31,837
General and administrative <sup>(1)</sup>	15,464	14,337
Systems development and programming costs <sup>(1)</sup>	7,225	5,894
Amortization of intangible assets	11,217	13,549
Depreciation	3,434	3,218
Total costs and operating expenses	594,537	483,635
Operating income	31,041	25,277
Other income (expense):		
Interest expense and bank fees	(5,204 )	(21,852 )
Other, net	450	103
Income before provision for income taxes	26,287	3,528
Provision for income taxes	10,476	1,988
Net income	\$ 15,811	\$ 1,540

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

Three Months Ended March 31,

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	2015	2014
	(in thousands)	
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	\$ 758	\$ 454
Sales and marketing	917	517
General and administrative	2,021	1,008
Systems development and programming costs	224	168
Total stock-based compensation expense	\$ 3,920	\$ 2,147

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	Three Months Ended March 31,			
	2015		2014	
Percentage of total revenues:				
Professional service revenues	16	%	16	%
Insurance service revenues	84	%	84	%
Total revenues	100	%	100	%
Costs and operating expenses:				
Insurance costs	77	%	75	%
Cost of providing services (exclusive of depreciation and amortization of intangible assets)				
amortization of intangible assets)	6	%	7	%
Sales and marketing	6	%	6	%
General and administrative	2	%	3	%
Systems development and programming costs	1	%	1	%
Amortization of intangible assets	2	%	3	%
Depreciation	1	%	1	%
Total costs and operating expenses	95	%	95	%
Operating income	5	%	5	%
Other income (expense):				
Interest expense and bank fees	(1	%)	(4	%)
Other, net	0	%	0	%
Income before provision for income taxes	4	%	1	%
Provision for income taxes	2	%	0	%
Net income	3	%	0	%

	Three Months Ended March 31,			
	2015		2014	
Percentage of Net Service Revenues:				
Professional service revenues	68	%	65	%
Net Insurance Service Revenues	32	%	35	%
Net Service Revenues	100	%	100	%
Other operating expenses:				
Cost of providing services (exclusive of depreciation and amortization of intangible assets)				
amortization of intangible assets)	26	%	26	%
Sales and marketing	26	%	25	%
General and administrative	11	%	11	%
Systems development and programming costs	5	%	5	%
Amortization of intangible assets	8	%	11	%
Depreciation	2	%	3	%
Total other operating expenses	78	%	80	%
Operating income	22	%	20	%
Other income (expense):				
Interest expense and bank fees	(4	%)	(17	%)
Other, net	0	%	0	%
Income before provision for income taxes	18	%	3	%
Provision for income taxes	7	%	2	%
Net income	11	%	1	%

Three Months Ended March 31, 2015 and 2014



## Total Revenues

	Three months ended		Change	
	March 31,		2015 vs. 2014	
	2015	2014	\$	%
	(in thousands, except percentages)			
Professional service revenues	\$97,016	\$82,875	\$14,141	17%
Insurance service revenues	528,562	426,037	102,525	24%
Total revenues	\$625,578	\$508,912	\$116,666	23%
<b>Key operating metrics:</b>				
Total WSEs	288,817	241,944	46,873	19%
Total Sales Representatives	408	336	72	21%

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Total revenues increased by \$116.7 million, or 23%, for the three months ended March 31, 2015, compared to the same period of the prior year. Professional service revenues and insurance service revenues represented 16% and 84%, respectively, of total revenues for the three months ended March 31, 2015 and 2014.

Professional service revenues for the three months ended March 31, 2015 increased by \$14.1 million, or 17%, compared to the same period of the prior year. The increase was mainly attributable to our increase in Total WSEs. Partially offsetting the increase 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 \$102.5 million, or 24%, for the three months ended March 31, 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 4% in average insurance service revenues per WSE.

Total WSEs at March 31, 2015 increased by 46,873, or 19%, compared to Total WSEs at March 31, 2014, which was primarily driven by a net increase in total clients. Our Total Sales Representatives increased from 336 at March 31, 2014 to 408 at March 31, 2015, primarily due to our efforts to grow our sales force.

Insurance Costs

	Three months ended		Change	
	March 31,		2015 vs. 2014	
	2015	2014	\$	%
	(in thousands, except percentages)			
Insurance costs	\$483,203	\$381,157	\$102,046	27%

Insurance costs increased \$102.0 million, or 27%, for the three months ended March 31, 2015 compared to the same period of the prior year. The increase resulted from an increase in Total WSEs and an increase of 6% in average insurance cost per WSE, primarily due to increased medical costs per WSE and, to a lesser extent, increased workers compensation cost per WSE.

Net Insurance Service Revenues and Net Service Revenues

	Three months ended		Change	
	March 31,		2015 vs. 2014	
	2015	2014	\$	%
	(in thousands, except percentages)			
Insurance service revenues	\$528,562	\$426,037	\$102,525	24%
Less: Insurance costs	483,203	381,157	102,046	27%
Net Insurance Service Revenues	\$45,359	\$44,880	\$479	1%

	Three months ended		Change	
	March 31,		2015 vs. 2014	
	2015	2014	\$	%
	(in thousands, except percentages)			
Total revenues	\$625,578	\$508,912	\$116,666	23%

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Less: Insurance costs	483,203	381,157	102,046	27%
Net Service Revenues	\$142,375	\$127,755	\$14,620	11%

For the reasons set forth above with respect to the increases in our insurance service revenues and total revenues, our Net Insurance Service Revenues increased by \$0.5 million, or 1%, for the three months ended March 31, 2015, as compared to the same period of the prior year. Our Net Service Revenues increased by \$14.6 million, or 11%, for the three months ended March 31, 2015, as compared to the same period of the prior year.

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## Other Operating Expenses

	Three months ended		Change	
	March 31, 2015	2014	\$	%
	(in thousands, except percentages)			
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	\$36,370	\$33,643	\$2,727	8%
Sales and marketing	37,624	31,837	5,787	18%
General and administrative	15,464	14,337	1,127	8%
Systems development and programming costs	7,225	5,894	1,331	23%
Amortization of intangible assets	11,217	13,549	(2,332)	(17%)
Depreciation	3,434	3,218	216	7%
Total operating expenses	\$111,334	\$102,478	\$8,856	9%
Cost of Providing Services				

	Three months ended		Change	
	March 31, 2015	2014	\$	%
	(in thousands, except percentages)			
Compensation-related costs	\$27,093	\$24,095	\$2,998	12 %
Facilities	1,883	1,611	272	17 %
Information technology and communication	2,520	2,495	25	1 %
Other expenses	4,874	5,442	(568 )	(10%)
Total cost of providing services	\$36,370	\$33,643	\$2,727	8 %

Cost of providing services for the three months ended March 31, 2015 increased by \$2.7 million, or 8%, compared to the same period of the prior year. Compensation-related costs increased by \$3.0 million due to increased headcount to support our growth, as well as a \$0.3 million increase in stock-based compensation expense, offset by \$0.7 million saving in costs to administer our insurance programs. Cost of providing services decreased to 6% of total revenues in the three months ended March 31, 2015, from 7% in the same period of the prior year. Cost of providing services remained unchanged at 26% of Net Service Revenues in the three months ended March 31, 2015 and March 31, 2014.

## Sales and Marketing

	Three months ended		Change	
	March 31, 2015	2014	\$	%
	(in thousands, except percentages)			
Compensation-related costs	\$26,730	\$23,294	\$3,436	15%

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Marketing and advertising	4,656	3,903	753	19%
Facilities	1,020	774	246	32%
Other expenses	5,218	3,866	1,352	35%
Total sales and marketing	\$37,624	\$31,837	\$5,787	18%

Sales and marketing expenses for the three months ended March 31, 2015 increased by \$5.8 million, or 18%, compared to the same period of the prior year. Of this increase, \$3.4 million was due to compensation-related costs from our growth in direct sales channels, primarily the addition of new sales representatives, as well as a \$0.4 million increase in stock-based compensation expense. Marketing and advertising expenses increased \$0.8 million, or 19%, primarily as a result of our effort to focus on market verticals and penetration. In order to support the growth in sales force, facilities cost increased \$0.2 million, or 32%, and other expenses including travel expenses and management information systems spending increased \$1.4 million, or 35%. Sales and marketing expenses as a percentage of total revenues remained unchanged at 6% in each of the three months ended March 31, 2015 and 2014. As a percentage of Net Service Revenues, sales and marketing expenses increased to 26% in the three months ended March 31, 2015, from 25% in the same period of the prior year as a result of our investments in growing our direct channel.

## General and Administrative

	Three months ended		Change	
	March 31,		2015 vs. 2014	
	2015	2014	\$	%
	(in thousands, except percentages)			
Compensation-related costs	\$9,544	\$8,495	\$1,049	12%
Legal and professional fees	2,847	1,933	914	47%
Other expenses	3,073	3,909	(836 )	(21%)
Total general and administrative	\$15,464	\$14,337	\$1,127	8%

General and administrative expenses for the three months ended March 31, 2015 increased by \$1.1 million, or 8%, compared to the same period of the prior year. Legal and professional fees increased \$0.9 million or 47%, as a result of being a public company. Other expense decreased \$0.8 million, or 21%, as a result of cost saving measures. Compensation-related costs increased \$1.0 million compared to the same period of the prior year primarily due to an increase in stock-based compensation expenses. General and administrative expenses decreased to 2% of total revenues in the three months ended March 31, 2015, compared to 3% in of total revenues in the three months ended March 31, 2014, and remained at 11% of Net Service Revenues, for the three months ended March 31, 2015 and 2014.

## Systems Development and Programming

	Three months ended		Change	
	March 31,		2015 vs. 2014	
	2015	2014	\$	%
	(in thousands, except percentages)			
Compensation-related costs	\$5,514	\$4,860	\$654	13%
Other expenses	1,711	1,034	677	65%
Total systems development and programming costs	\$7,225	\$5,894	\$1,331	23%

Our systems development and programming costs for the three months ended March 31, 2015 increased by \$1.3 million, or 23%, compared to the same period of the prior year. The increase was primarily due to an increase in compensation-related costs resulting from the increase in headcount and consulting expenses, to support and enhance our technology product delivery. Despite these increases, systems development and programming costs remained unchanged at 1% of total revenues, or 5% of Net Service Revenues, in the three months ended March 31, 2015 and March 31, 2014.

## Amortization of Intangible Assets and Depreciation

Change

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	Three months ended		2015 vs. 2014	
	March 31, 2015	2014	\$	%
	(in thousands, except percentages)			
Amortization of intangible assets	\$ 11,217	\$ 13,549	\$ (2,332)	(17%)
Depreciation	\$ 3,434	\$ 3,218	\$ 216	7%

Our amortization of intangible assets decreased by \$2.3 million, or 17%, for the three months ended March 31, 2015 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		Change	
	March 31, 2015	2014	\$	%
	(in thousands, except percentages)			
Interest expense and bank fees	\$(5,204)	\$(21,852)	\$ 16,648	(76%)
Other, net	\$ 450	\$ 103	\$ 347	337%

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 months ended March 31, 2015 as a result of the lower debt level compared to the same period of the prior year.

## Provision for Income Taxes

	Three months ended		Change	
	March 31,		2015 vs. 2014	
	2015	2014	\$	%
	(in thousands, except percentages)			
Provision for income taxes	\$10,476	\$1,988	\$8,488	427%
Effective tax rates	39.9 %	56.4 %		

Our provision for income taxes for the three months ended March 31, 2015 increased by \$8.5 million compared to the same period of the prior year, primarily due to the increase in our pre-tax income. Our effective income tax rate decreased from 56.4% for the three months ended March 31, 2014 to 39.9% for the three months ended March 31, 2015, primarily due to a discrete benefit from disqualifying disposition of previously non-deductible stock-based compensation, offset by a discrete expense recorded in the three months ended March 31, 2014, related to a regulatory state tax law change.

## 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 three months ended March 31, 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:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Net cash provided by (used in):		



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Operating activities	\$ 14,118		\$ 30,337
Investing activities	(4,644	)	(6,064 )
Financing activities	(39,278	)	4,014
Effect of exchange rates on cash and cash equivalents	(136	)	(42 )
Net increase (decrease) in cash and cash equivalents	\$ (29,940	)	\$ 28,245

Cash Flows from Operating Activities

Net cash provided by operating activities was \$14.1 million and \$30.3 million for the three months ended March 31, 2015 and 2014, respectively. The decrease in cash from operating activities was primarily driven by an increase in workers compensation collateral.

Cash Flows from Investing Activities

Net cash used in investing activities was \$4.6 million for the three months ended March 31, 2015, as compared to \$6.1 million in the same period of the prior year. Investments to purchase property and equipment were \$4.6 million for the three months ended March 31, 2015 compared to \$5.1 million for the same period of 2014 reflecting continued investment in technology to enhance our product offerings.

## Cash Flows from Financing Activities

Net cash used in financing activities was \$39.3 million for the three months ended March 31, 2015, compared to \$4.0 million provided by financing activities in the same period of the prior year. Net cash used in financing activities during the three months ended March 31, 2015 was attributable to \$30.1 million in loan repayments, and \$25.0 million in stock repurchases, offset by \$3.2 million of net proceeds received from the exercise of stock options and \$12.9 million of excess income tax benefit recognized related to stock option exercises. Net cash provided by financing activities during the three months ended March 31, 2014 was attributable to \$219.4 million of net proceeds received from our IPO, offset by \$216.6 million of loan payments from those proceeds.

## 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. On July 9, 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 March 31, 2015. As of March 31, 2015, we had \$514.7 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

Our principal obligations and commitments consist of long-term debt obligations of \$514.7 million and interest on debt obligations in accordance with the terms of the amended and restated credit agreement discussed above. The projected interest payments incorporate the forward LIBOR curve as of March 31, 2015.

Workers compensation liabilities of \$144.3 million 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 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.

Our purchase obligations primarily consist of obligations for renewal premiums on workers compensation policies, 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.

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 \$830.6 million at March 31, 2015. Included in this amount were \$52.4 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 \$514.7 million as of March 31, 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 March 31, 2015 of 100 basis points, our interest expense for 2015 through 2019 would be \$87.5 million. On the other hand, with a decrease in interest rates in effect at March 31, 2015 of 100 basis points, our interest expense for 2015 through 2019 would be \$52.9 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 March 31, 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 March 31, 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.

##### Remediation Efforts on Previously Identified Material Weakness

In preparing and reviewing our consolidated financial statements as of and for the nine months ended September 30, 2013, and in connection with our restatement of previously issued consolidated financial statements for the years ended December 31, 2010 and 2011, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. The material weakness identified related to our incorrectly recording a deferred tax asset in connection with our accounting for our acquisition of Ambrose Employer Group, LLC that should have been reported as goodwill as of September 30, 2013, and to incorrectly recording a true-up to the income tax provision in 2011 related to the allocation of stock compensation between qualified and nonqualified stock options that should have been identified and recorded in 2010. As a result, there were adjustments required in connection with closing our books and records and preparing our consolidated financial statements for the nine months ended September 30, 2013 and a restatement was required for our consolidated financial statements for the years ended December 31, 2011 and 2010.

In response to this material weakness, we hired a Director of Income Tax Accounting, who reports directly to our Chief Accounting Officer. We engaged external technical advisers to assist us with the evaluation of complex tax issues and improve our process, procedures and documentation standards relating to preparation of income tax provision calculations. We will continue to assess and develop our tax professionals to provide appropriate technical and accounting expertise commensurate with our needs to properly consider and apply GAAP for income taxes.

We believe our remediation efforts resulted in the elimination of the previously identified material weakness. While this material weakness has been remediated, 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. We have dedicated resources to the design, implementation, documentation and testing of our internal controls. We will continue to evaluate the effectiveness of our internal controls, including our internal control over accounting for income taxes, and will continue to make changes that we believe will strengthen our internal controls to ensure that our financial statements continue to be fairly stated in all material respects.

Neither we nor our independent registered public accounting firm has performed an evaluation of our internal control over financial reporting during any period in accordance with the provisions of the Sarbanes-Oxley Act. In light of the material weakness that was identified as a result of the limited procedures performed, we believe that it is possible that, had we and our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, additional material weaknesses or significant control deficiencies may have been identified.

### 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 March 31, 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

We may from time to time become involved in various litigation matters arising in the ordinary course of business, including suits by our clients. The unfavorable resolution of any such matter could have a material effect on our consolidated financial position and results of operations.

Due to the nature of our relationship with our WSEs, we could be subject to liability for federal and state law violations even if we do not participate in such violations. While our agreements with our clients contain indemnification provisions related to the conduct of our clients, we historically have not encountered situations requiring enforcement of these indemnification provisions.

We have been named as a defendant in various class action lawsuits arising from the nature of our relationship with our WSEs. Management is currently unable to estimate a possible loss or range of loss for these class action lawsuits. However, at this stage of the lawsuits, management currently believes that none of the pending legal proceedings or claims is reasonably likely to have a material adverse effect on our financial position, results of operations or cash flows. Nevertheless, regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors. In addition, if one or more of these legal matters were resolved against the Company in a way contrary to management's expectations, our consolidated financial statements could be materially adversely affected.

### 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. If any of the following risks materialize, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, 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 U.S. employees of businesses with fewer than 500 employees 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 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 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.

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. 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.

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 our insurance claims based on the unpredictable nature of large claims. 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 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 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 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;
- the amount and timing of our insurance costs, operating expenses and capital expenditures;
- 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;
- 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;
- extraordinary expenses such as litigation or other dispute-related settlement payments; 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 could 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 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, such as the application of proposed immigration reform to a co-employment relationship, and tax credits for small businesses that utilize a co-employment relationship.

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 benefits offerings, it is important that we act and qualify as an employer of the WSEs 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 preemption of 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 under common law. We believe that we qualify as an employer of our WSEs in the United States under 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 do 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 the favorable tax treatment for any plans intended to qualify under Section 401 of the Code, including our 401(k) plans and cafeteria plans, which could have a material adverse effect on our business. If we were found not to be an employer for ERISA purposes, our plans would not comply with ERISA, and fines and penalties could be imposed. In addition, if we were found not to be an employer for ERISA purposes, we and our plans would not enjoy the full preemption of state laws provided by ERISA and could be subject to varying state laws and regulations, including laws governing multiple employer welfare arrangements, or MEWAs, as well as to claims based upon state laws.

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

The Patient Protection and Affordable Care Act and the Health 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 \$2.0 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 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 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.

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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 unit of Automatic Data Processing, Inc. and Insperty, 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 to 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 America, Inc. 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.

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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 March 31, 2015, we had \$514.7 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.

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.

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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 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.

In preparing and reviewing our consolidated financial statements as of and for the nine months ended September 30, 2013, and in connection with our restatement of previously issued consolidated financial statements for the years ended December 31, 2010 and 2011, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting related to accounting for income taxes. As a result, there were adjustments required in connection with closing our books and records and preparing our consolidated financial statements for the nine months ended September 30, 2013 and a restatement was required for our consolidated financial statements for the years ended December 31, 2010 and 2011. In response to this material weakness, we hired a Director of Income Tax Accounting, who reports directly to our Chief Accounting Officer, we engaged external technical advisers to assist us with the evaluation of complex tax issues and we improved our process, procedures and documentation

standards relating to preparation of income tax provision calculations. We believe these efforts resulted in the elimination of the previously identified material weakness. However, 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.

#### 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. For example, 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 \$17.28 to \$38.00 per share through March 31, 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. If we were to become involved in securities litigation, it 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 March 31, 2015, there were 5,831,563 shares of common stock subject to outstanding options, 739,765 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 March 31, 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 March 31, 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 41.4% 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

None.

(b) Issuer Purchases of Equity Securities

The following table provides information about our purchases of TriNet common stock during the quarter ended March 31, 2015:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares that May Yet be Purchased Under the Plans (1)
January 1 - January 31, 2015	—	—	—	—
February 1 - February 28, 2015	—	—	—	—
March 1 - March 31, 2015	725,624	\$ 34.45	725,624	145,125
Total	725,624			

(1) During the fourth quarter of 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. The program was initially approved by our board of directors in May 2014 to authorize us to repurchase in the aggregate up to \$15 million of our outstanding common stock. We repurchased approximately \$15 million and \$25 million of our outstanding common stock during the year 2014 and during the three months ended March 31, 2015, respectively. As of March 31, 2015 we had \$5 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: May 7, 2015 By: /s/ Burton M. Goldfield  
Burton M. Goldfield  
Chief Executive Officer

Date: May 7, 2015 By: /s/ William Porter  
William Porter  
Chief Financial Officer

## EXHIBIT INDEX

Exhibit No.	Exhibit	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit		
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	
10.1	Form of Performance-Based Restricted Stock Unit Award Agreement and Performance-Based Restricted Stock Unit Grant Notice under the Amended and Restated 2009 Equity Incentive Plan.					X
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 the Company'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.

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