TRINET GROUP INC
Form 10-Q
August 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 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 incorporation or organization)	(I.R.S. Employer Identification No.)

1100 San Leandro Blvd., Suite 400

San Leandro, CA 94577

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (510) 352-5000

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

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

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 x (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 x

As of July 31, 2015, the registrant had 70,558,270 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)

	June 30, 2015	December 31, 2014
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 128,413	$ 134,341
Restricted cash	14,550	14,543
Prepaid income taxes	20,431	26,711
Prepaid expenses	14,541	9,336
Deferred loan costs and other current assets	4,148	4,271
Worksite employee related assets	838,239	1,635,136
Total current assets	1,020,322	1,824,338
Workers compensation receivable	37,238	31,905
Restricted cash and investments	82,853	69,447
Property and equipment, net	36,134	32,298
Goodwill	288,857	288,857
Other intangible assets, net	59,893	81,718
Deferred and other long term income taxes	21,715	7,184
Deferred loan costs and other assets	10,033	12,017
Total assets	$ 1,557,045	$ 2,347,764
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 12,354	$ 12,273
Accrued corporate wages	26,250	29,179
Deferred income taxes	67,777	65,713
Current portion of notes payable and borrowings under capital leases	20,272	20,738
Other current liabilities	10,410	10,303
Worksite employee related liabilities	832,531	1,630,555
Total current liabilities	969,594	1,768,761
Notes payable and borrowings under capital leases, less current portion	489,553	524,412
Workers compensation liabilities	99,125	75,448
Other liabilities	6,715	4,902
Total liabilities	1,564,987	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 June 30, 2015 and December 31, 2014	—	—
Common stock, $.000025 per share stated value; 750,000,000 shares authorized;	476,426	442,682

70,489,820 and 69,811,326 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively		
Accumulated deficit	(483,982)	(468,127)
Accumulated other comprehensive loss	(386)	(314)
Total stockholders’ deficit	(7,942)	(25,759)
Total liabilities and stockholders’ deficit	$ 1,557,045	$ 2,347,764

See accompanying notes.

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TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Professional service revenues	$ 97,799	$ 82,260	$ 194,815	$ 165,135
Insurance service revenues	542,208	442,746	1,070,770	868,783
Total revenues	640,007	525,006	1,265,585	1,033,918
Costs and operating expenses:				
Insurance costs	517,994	400,195	1,001,197	781,352
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	37,672	34,034	74,042	67,677
Sales and marketing	41,119	34,992	78,743	66,829
General and administrative	15,801	12,682	31,265	27,019
Systems development and programming costs	7,633	6,565	14,858	12,459
Amortization of intangible assets	10,608	13,267	21,825	26,816
Depreciation	3,195	3,242	6,629	6,460
Total costs and operating expenses	634,022	504,977	1,228,559	988,612
Operating income	5,985	20,029	37,026	45,306
Other income (expense):				
Interest expense and bank fees	(4,764)	(8,860)	(9,968)	(30,712)
Other, net	68	(25)	518	78
Income before provision for income taxes	1,289	11,144	27,576	14,672
Provision for income taxes	2,597	4,923	13,073	6,911
Net income (loss)	$ (1,308)	$ 6,221	$ 14,503	$ 7,761
Net income (loss) per share:				
Basic	$ (0.02)	$ 0.09	$ 0.21	$ 0.13
Diluted	$ (0.02)	$ 0.09	$ 0.20	$ 0.12
Weighted average shares:				
Basic	70,305,185	69,053,403	70,251,980	42,914,458
Diluted	70,305,185	72,658,822	73,090,962	46,028,300

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss)	$ (1,308)	$ 6,221	$ 14,503	$ 7,761
Other comprehensive income (loss), net of tax				
Unrealized gains on investments	–	3	37	20
Foreign currency translation adjustments	27	43	(109)	1
Total other comprehensive income (loss), net of tax	27	46	(72)	21
Comprehensive income (loss)	$ (1,281)	$ 6,267	$ 14,431	$ 7,782

See accompanying notes.

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TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Operating activities		
Net income	$ 14,503	$ 7,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,302	39,070
Deferred income taxes	1,977	2,276
Stock-based compensation	8,803	5,070
Excess tax benefit from equity incentive plan activity	(17,673)	(3,029)
Accretion of workers compensation and leases fair value adjustment	(358)	(695)
Changes in operating assets and liabilities:		
Restricted cash and investments	(13,413)	10,520
Prepaid expenses and other current assets	(5,082)	(3,960)
Workers compensation receivables	(5,083)	(14,737)
Other assets	(14,509)	4,871
Accounts payable	(35)	3,405
Prepaid income taxes	23,953	(6,461)
Other current liabilities	(612)	(753)
Other liabilities	25,532	11,745
Worksite employee related assets	796,897	108,158
Worksite employee related liabilities	(798,024)	(109,584)
Net cash provided by operating activities	45,178	53,657
Investing activities		
Purchase of debt securities	–	(16,789)
Purchase of property and equipment	(10,349)	(8,709)
Net cash used in investing activities	(10,349)	(25,498)
Financing activities		
Proceeds from issuance of common stock, net of issuance costs	–	218,613
Proceeds from issuance of common stock on exercised options	4,639	631
Proceeds from issuance of common stock on employee stock purchase plan	2,723	–
Excess tax benefit from equity incentive plan activity	17,673	3,029
Repayment of notes payable	(35,187)	(243,025)
Repayments under capital leases	(138)	(188)
Repurchase of common stock	(30,358)	(1,288)
Net cash used in financing activities	(40,648)	(22,228)
Effect of exchange rate changes on cash and cash equivalents	(109)	1
Net increase (decrease) in cash and cash equivalents	(5,928)	5,932
Cash and cash equivalents at beginning of period	134,341	94,356
Cash and cash equivalents at end of period	$ 128,413	$ 100,288

Supplemental disclosures of cash flow information

Cash paid for interest	$ 7,806	$ 23,407
Cash paid for income taxes, net	$ 1,505	$ 11,067
Supplemental schedule of noncash investing and financing activities		
Payable for purchase of property and equipment	$ 116	$ 3,970

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

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

Segment Information

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

Basis of Presentation

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

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

reserves, premium amounts due to providers for enrolled employees, and workers compensation and health reserves that are expected to be disbursed within the next 12 months.

The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation. The results of the six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

Seasonality and Insurance Variability

Historically, the Company has experienced its highest monthly addition of WSEs, as well as its highest monthly levels of client attrition, in the month of January, primarily because clients that change their payroll service providers tend to do so at the beginning of a calendar year. In addition, the Company experiences higher levels of client attrition during the fourth quarter and, to a lesser extent, during the first quarter of the calendar year, in connection with renewals of the health insurance it provides for its WSEs, in the event that such renewals result in increased premiums that it passes on to its clients. The Company has also historically experienced higher insurance claim volumes in the second and third quarters of a fiscal year than in the first and fourth quarters of a fiscal year, as WSEs typically access their health care providers more often in the second and third quarters of a fiscal year, which has negatively impacted the Company’s insurance costs in these quarters. The Company has also experienced variability on a quarterly basis in the 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 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 April 2015, the FASB issued Accounting Standards Update (ASU) 2015-05—Intangibles—Goodwill and Other—Internal-Use Software, as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The amendment provides guidance to clarify the customer's accounting for fees paid in a cloud computing arrangement. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The Company expects to adopt this guidance in 2016. The Company does not expect this guidance to have a material effect on its consolidated financial statements.

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

In January 2015, the FASB issued ASU 2015-01— Income Statement-Extraordinary and Unusual Items, as part of its 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 effect on its consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09—Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance under GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be

entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. In July 2015, the FASB deferred the effective date to annual reporting periods, and interim periods within those years, beginning after December 15, 2017. Early adoption at the original effective date of December 15, 2016 is permitted. The amendments may be applied retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company has not yet selected a method of adoption and is currently evaluating the effect that the amendments will have on the consolidated financial statements.

NOTE 2. WORKSITE EMPLOYEE-RELATED ASSETS AND LIABILITIES

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

	June 30, 2015	December 31, 2014
Worksite employee-related assets:		
Restricted cash	$ 82,611	$ 64,890
Restricted investments	2,318	4,555
Payroll funds collected	435,033	1,336,994
Unbilled revenue, net of advance collections of $80,719 and $113,190 at June 30, 2015 and December 31, 2014, respectively	289,240	203,599
Accounts receivable, net of allowance for doubtful accounts of $548 and $388 at June 30, 2015 and December 31, 2014, respectively	9,848	5,193
Prepaid health plan expenses	6,029	4,932
Refundable workers compensation premiums	6,272	7,975
Prepaid workers compensation expenses	3,304	1,256
Other payroll assets	3,584	5,742
Total worksite employee-related assets	$ 838,239	$ 1,635,136
Worksite employee-related liabilities:		
Unbilled wages accrual	$ 347,016	$ 292,906
Payroll taxes payable	250,447	1,119,427
Health benefits payable	122,914	104,220
Customer prepayments	41,461	53,770
Workers compensation payable	42,935	36,778
Other payroll deductions	27,758	23,454
Total worksite employee-related liabilities	$ 832,531	$ 1,630,555

NOTE 3. WORKERS COMPENSATION

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

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

	For the six months ended June 30, 2015	For the year ended December 31, 2014
Liability for unpaid claims and claims adjustment at beginning of period	$ 92,406	$ 58,610
Incurred related to:		
Current year	40,155	61,669
Prior years	2,094	(4,725)
Total incurred	42,249	56,944
Paid related to:		
Current year	(12,527)	(13,525)
Prior years	(6,537)	(9,623)
Total paid	(19,064)	(23,148)
Liability for unpaid claims and claims adjustment at end of period	115,591	92,406
Other premiums and collateral liabilities	26,469	19,820
Total workers compensation liabilities at end of period	$ 142,060	$ 112,226
Current portion included in worksite employee-related liability	42,935	36,778
Long term portion	$ 99,125	$ 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 June 30, 2015 and December 31, 2014, such restricted amounts of $41.2 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 June 30, 2015 and December 31, 2014, $82.9 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):

	June 30, 2015	December 31, 2014
Software	$54,131	$ 53,349
Office equipment, including data processing equipment	19,797	18,550
Leasehold improvements	9,463	7,092
Furniture, fixtures, and equipment	6,937	6,450
Projects in progress	11,745	6,786
	102,073	92,227
Accumulated depreciation	(65,939)	(59,929)
Property and equipment, net	$36,134	$ 32,298

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

Projects in progress consist primarily of software development costs. The Company capitalizes software development costs intended for internal use. The Company recognized depreciation expense for capitalized internally developed software of $2.1 million and $2.9 million for the six months ended June 30, 2015 and 2014, respectively. Accumulated depreciation for these assets was $31.6 million and $29.4 million at June 30, 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 $32.4 million of cash collateral at June 30, 2015. The Company's restricted investments within WSE-related assets include $2.3 million of certificates of deposit as of June 30, 2015. The available-for-sale marketable securities as of June 30, 2015 and December 31, 2014 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2015:				
U.S. treasuries	$ 49,947	$ 68	$ -	$ 50,015
Mutual funds	500	7	-	507
Total investments	$ 50,447	$ 75	$ -	$ 50,522
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 six months ended June 30, 2015 and 2014. As of June 30, 2015 and December 31, 2014, the contractual maturities of the U.S. treasuries were two to three years.

As of June 30, 2015, none of the Company's U.S. treasuries were in an unrealized loss position. Unrealized losses are principally due to changes in interest rates 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 0% and 59% of the total fair value of all securities available for sale as of June 30, 2015 and December 31, 2014, respectively, and their unrealized losses were de minimis as of June 30, 2015 and December 31, 2014. As the Company has the ability and intent to hold debt securities until maturity, or for the foreseeable future as classified as available for sale, no decline was deemed to be other-than-temporary.

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

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

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

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

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

	Total Fair Value	Level I	Level II	Level III
June 30, 2015:				
Certificates of deposit	$2,318	$2,318	$ -	$ -
U.S. treasuries	50,015	50,015	-	-
Mutual funds	507	507	-	-
Total	$52,840	$52,840	$ -	$ -
December 31, 2014:				
Certificates of deposit	$2,318	$2,318	$ -	$ -
U.S. treasuries	50,082	50,082	-	-
Mutual funds	506	506	-	-
Interest rate cap	1	-	1	-
Total	$52,907	$52,906	$ 1	$ -

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

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

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

At June 30, 2015 and December 31, 2014, the carrying value of the Company's notes payable of $509.7 million and $544.9 million, respectively, approximated fair value. The estimated fair values of the Company's notes payable are considered a Level II valuation in the hierarchy for fair value measurement and are based on a cash flow model discounted at market interest rates that considers the underlying risks of unsecured debt.

NOTE 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):

	June 30, 2015	December 31, 2014
Notes payable under credit facility	$509,688	$ 544,875
Capital leases	137	275
Less current portion	(20,272)	(20,738)
	$489,553	$ 524,412

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

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

under the original first lien credit facility and (iii) pay fees and expenses related thereto. The revolving credit facility replaced the revolving credit facility under the original first lien credit facility.

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

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

The Company is permitted to make voluntary prepayments at any time without payment of a premium. The Company is required to make mandatory prepayments of term loans (without payment of a premium) with (i) net cash proceeds from issuances of debt (other than certain permitted debt), (ii) net cash proceeds from certain non-ordinary course asset sales and casualty and condemnation proceeds (subject to reinvestment rights and other exceptions), and (iii) beginning with the fiscal year ending December 31, 2015, 50% of its excess cash flow (subject to decrease to (x) 25% if its total leverage ratio as of the last day of such fiscal year is less than 3.75 to 1.0 and equal to or greater than 3.00 to 1.0, and (y) 0% if the total leverage ratio as of the last day of such fiscal year is less than 3.00 to 1.0), provided that the Company may defer prepayments based on excess cash flow to the extent such payments would result 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 June 30, 2015. In connection with the Amended and Restated Credit Agreement, the Company incurred $11.1 million of debt issuance costs. The Company deferred $8.0 million of the costs, which are being amortized over the term of the credit facility. The remaining $3.1 million of costs were recorded to interest expense and bank fees. Additionally, the Company recorded a $9.0 million loss on extinguishment of debt to write-off deferred issuance costs associated with the original first lien credit facility, which was also recorded to interest expense and bank fees. The remaining $6.1 million of loan fees associated with the previous facility that was deemed to be modified continues to be amortized over the revised remaining term of the Amended and Restated Credit Agreement.

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

The Amended and Restated Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness, and

dividends and other distributions. The Amended and Restated Credit Agreement also contains financial covenants that require the Company to maintain a minimum consolidated interest coverage ratio of at least 3.50 to 1.00, beginning with the fiscal quarter ending September 30, 2014, and a maximum total leverage ratio, currently at 4.50 to 1.00. The Company was in compliance with the restrictive covenants under the credit facilities at June 30, 2015. The credit facility is secured by substantially all of the Company's assets and the assets of the borrower and of the subsidiary guarantors, other than specifically excluded assets.

NOTE 7: STOCKHOLDERS' EQUITY

Equity-Based Incentive Plans

In 2000, the Company established the 2000 Equity Incentive Plan (the 2000 Plan), which provided for granting incentive stock options, nonstatutory stock options, bonus awards and restricted stock awards to eligible employees, directors, and consultants of the Company. In December 2009, the Board of Directors approved the 2009 Equity Incentive Plan (the 2009 Plan) as the successor to and

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

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

The Company has granted restricted stock units (RSUs) to members of the Board of Directors and certain executives. These RSUs represent rights to receive shares of the Company's common stock on satisfaction of applicable vesting conditions. The fair value of RSUs is equal to the fair value of the Company's common stock on the date of grant. The RSUs granted to the members of the Board of Directors vest a year from the grant date. The RSUs granted to newly hired employees vest at a rate of 25% of the total RSUs a year after the grant date and then 1/16 of the total RSUs granted on the 15th day of the second month of each calendar quarter thereafter. All other RSUs granted to employees vest at a rate of 1/16 of the total RSUs granted on the 15th day of the second month of each calendar quarter following the grant date.

In March 2015, the Company granted performance-based restricted stock units (PSUs) to its executives intended to represent 33.3% of each executive's annual long-term incentive compensation award value in fiscal 2015. These PSUs vest over three years based on the Company's attainment of annual financial performance goals as well as the executive's continued employment through each vesting date. The number of shares that ultimately vest each year will range from 0 to 200% of the annual target amount, based on the Company's performance. Cumulative financial performance metrics and goals are established for these awards at the grant date and the tranche of each award related to that period's performance goal is treated as a separate grant for accounting purposes. The financial performance metric established for the performance awards is cumulative annual growth rate in the Company's net service revenues. These values are being recognized over the tranches' 12-month, 24-month and 36-month service periods. The Company began recording stock-based compensation expense for these tranches in March 2015, when the financial performance goals were established.

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

Equity Incentive Plan Activity	Shares Available for Grant	
Balance at December 31, 2014	2,708,524	
Authorized	3,141,509	
Granted	(1,194,751	)
Forfeited	482,321	
Expired	1,250	

Balance at June 30, 2015	5,138,853

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

Stock Options Activity	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2014	6,892,810	$ 6.13	8.22	$ 173,338
Granted	277,200	33.42		
Exercised	(1,442,538)	3.28		
Forfeited	(467,002)	8.17		
Expired	(1,250)	10.98		
Balance at June 30, 2015	5,259,220	$ 8.17	7.95	$ 90,346
Exercisable at June 30, 2015	1,830,015	$ 4.74	7.39	$ 37,723
Vested and expected to vest at June 30, 2015	5,031,744	$ 7.96	7.92	$ 87,501

The weighted-average grant date fair value of stock options granted in each of the three months ended June 30, 2015 and June 30, 2014 was $11.63 and $12.46 per share, respectively. The weighted-average grant date fair value of stock options granted in each of the six months ended June 30, 2015 and June 30, 2014 was $13.49 and $6.33 per share, respectively. The total fair value of options vested for the three months ended June 30, 2015 and June 30, 2014 was $1.3 million and $1.3 million, respectively. The total fair value of options vested for the six months ended June 30, 2015 and June 30, 2014 was $5.7 million and $4.6 million, respectively.

The total intrinsic value of options exercised for the three months ended June 30, 2015 and June 30, 2014 was $12.8 million and $3.8 million, respectively. The total intrinsic value of options exercised for the six months ended June 30, 2015 and June 30, 2014 was $43.0 million and $10.0 million, respectively. Cash received from options exercised during the six months ended June 30, 2015 and June 30, 2014 was $4.7 million and $0.6 million, respectively. The exercise price of all options granted was equal to the fair value of the common stock on the date of grant.

As of June 30, 2015, unrecognized compensation expense, net of forfeitures, associated with nonvested options outstanding was $19.5 million and is expected to be recognized over a weighted-average period of 1.83 years.

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

Restricted Stock Unit Activity	Number of Units	Weighted-Average Grant Date

		Fair Value
Nonvested at December 31, 2014	7,750	$ 13.21
Granted	744,265	$ 33.42
Vested	(35,639)	$ 32.66
Forfeited	(15,319)	$ 33.51
Nonvested at June 30, 2015	701,057	$ 33.24

The total grant date fair value of RSUs granted in the three months ended June 30, 2015 was $0.3 million. The total grant date fair value of RSUs granted in the six months ended June 30, 2015 was $24.9 million. The total grant date fair value of RSUs vested in the three months ended June 30, 2015 was $1.0 million. The total grant date fair value of RSUs vested in the six months ended June 30, 2015 was $1.1 million. As of June 30, 2015, unrecognized compensation expense, net of forfeitures, associated with the nonvested RSUs outstanding was $20.8 million, and is expected to be recognized over a weighted-average period of 3.41 years.

The following table summarizes PSU activity under the Company's equity-based plans for the six months ended June 30, 2015:

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

The maximum total grant date fair value of PSUs granted in the six months ended June 30, 2015 was $5.8 million, assuming maximum 200% performance target is met. As of June 30, 2015, unrecognized compensation expense assuming a 100% performance target is met, net of forfeitures, was $2.0 million, and is expected to be recognized over a weighted-average period of 2.5 years.

Employee Stock Purchase Plan

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

Stock Repurchases

During the six months ended June 30, 2015, the Company repurchased 895,625 shares of outstanding common stock for $30.0 million. On June 29, 2015, the Board approved the repurchase of an additional $50.0 million of its outstanding common stock in the aggregate under the existing stock repurchase program. As of June 30, 2015, a total of approximately $50.0 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 $8.8 million and $5.1 million was recognized for the six months ended June 30, 2015 and 2014, respectively. Income tax benefit of $2.8 million and $1.4 million was recognized relating to stock-based compensation expense for the six months ended June 30, 2015 and 2014, respectively. The actual tax benefit realized from stock options exercised was $13.9 million and $3.8 million for the six months ended June 30, 2015 and 2014, respectively.

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

Stock Option Assumptions	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Expected term (in years)	6.11		5.85		6.08-6.11		6.04	
Expected volatility	39	%	58	%	39	%	58	%
Risk-free interest rate	1.96	%	1.81	%	1.74-1.96	%	1.80	%
Expected dividend yield	0	%	0	%	0	%	0	%

ESPP Assumptions	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Expected term (in years)	0.5	0.64	0.5	0.64
Expected volatility	33-43 %	58 %	33-43 %	58 %
Risk-free interest rate	0.07-0.08 %	0.06 %	0.07-0.08 %	0.06 %
Expected dividend yield	0 %	0 %	0 %	0 %

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

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of providing services	$ 1,214	$ 801	$ 1,972	$ 1,255
Sales and marketing	1,309	774	2,226	1,291
General and administrative	1,842	1,045	3,863	2,053
Systems development and programming costs	518	303	742	471
	$ 4,883	$ 2,923	$ 8,803	$ 5,070

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 (loss), 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 (loss) per share attributable to common stock (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator (basic)				
Net income (loss)	$ (1,308)	$ 6,221	$ 14,503	$ 7,761
Less net income allocated to participating securities	–	–	–	(2,366)
Net income (loss) attributable to common stock	$ (1,308)	$ 6,221	$ 14,503	$ 5,395
Denominator (basic)				
Weighted average shares of common stock outstanding	70,305	69,053	70,252	42,914
Basic EPS	$ (0.02)	$ 0.09	$ 0.21	$ 0.13
Numerator (diluted)				
Net income (loss)	$ (1,308)	$ 6,221	$ 14,503	$ 7,761
Less net income allocated to participating securities	–	–	–	(2,253)
Net income (loss) attributable to common stock	$ (1,308)	$ 6,221	$ 14,503	$ 5,508
Denominator (diluted)				
Weighted average shares of common stock	70,305	69,053	70,252	42,914
Dilutive effect of stock options and restricted stock units	–	3,605	2,839	3,114
Weighted average shares of common stock outstanding	70,305	72,659	73,091	46,028
Diluted EPS	$ (0.02)	$ 0.09	$ 0.20	$ 0.12
	3,589	143	850	827

Common stock equivalents excluded from income (loss) per diluted

share because of their anti-dilutive effect

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 201.5% and 44.2% for the three months ended June 30, 2015 and 2014, respectively, and 47.4% and 47.1% for the six months ended June 30, 2015 and 2014, respectively. The increase is primarily due to the revaluation of deferred taxes resulting from regulatory tax law changes which resulted in a charge of $2.0 million, offset in part by disqualifying dispositions on previously non-deductible stock-based compensation. The law change had a disproportionate impact on the effective tax rate for the three months ended June 30, 2015 due to the decrease in income before provision for taxes.

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 June 30, 2015 and 2014 was $3.2 and $2.9 million, respectively. Rent expense for the six months ended June 30, 2015 and 2014 was $6.3 million and $5.7 million, respectively.

Operating Covenants

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

Contingencies

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, collective action and representative action lawsuits arising from the nature of its relationship with its 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 the Company's financial position, results of operations or cash flows. Nevertheless, regardless of the outcome, litigation can have an adverse impact on the Company 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, the Company's 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 Form10-K filed with the Securities and Exchange Commission on March 30, 2015. We also encourage you to review the risks and uncertainties described in the section titled "Risk Factors" included in this Quarterly Report under Part II, Item 1A below. Unless the context suggests otherwise, references to "TriNet," the "Company," "we," "us" and "our" refer to TriNet Group, Inc. and, where appropriate, its subsidiaries.

Special Note Regarding Forward-Looking Statements

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

Overview

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

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

We serve thousands of clients in specific industry vertical markets, including technology, life sciences, property management, professional services, banking and financial services, retail, manufacturing and hospitality services, as well as non-profit entities. As of June 30, 2015, we served over 11,000 clients in all 50 states, the District of Columbia and Canada and co-employed approximately 302,000 WSEs.

Our total revenues consist of professional service revenues and insurance service revenues. For each of the three months ended June 30, 2015 and 2014, 15% of our total revenues consisted of professional service revenues and 85% of our total revenues consisted of insurance service revenues. For each of the six months ended June 30, 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 June 30, 2015 and 2014, 80% and 66% of our Net Service Revenues, respectively, consisted of professional service revenues and 20% and 34% of our Net Service Revenues, respectively, consisted of Net Insurance Service Revenues. For the six months ended June 30, 2015 and 2014, 74% and 65% of our Net Service Revenues, respectively, consisted of professional service revenues and 26% 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 June 30, 2015 and 2014, our sales and marketing expenses were $41.1 million and $35.0 million, respectively, or 6% and 7% of our total revenues and 34% and 28% of our Net Service Revenues, respectively. For the six months ended June 30, 2015 and 2014, our sales and marketing expenses were $78.7 million and $66.8 million, respectively, or 6% and 6% of our total revenues and 30% and 26% 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 June 30, 2015 and 2014, our systems development and programming costs were $7.6 million and $6.6 million, respectively, or 1% and 1% of our total revenues and 6% and 5% of our Net Service Revenues, respectively. For the six months ended June 30, 2015 and 2014, our systems development and programming costs were $14.9 million and $12.5 million, respectively, or 1% and 1% of our total revenues and 6% 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 and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,	Six Months Ended June 30,

	2015	2014	2015	2014
Net Insurance Service Revenues (in thousands)	$24,214	$42,551	$69,573	$87,431
Net Service Revenues (in thousands)	$122,013	$124,811	$264,388	$252,566
Total WSEs	302,375	258,985		
Total Sales Representatives	486	388		

Total WSEs

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

Total Sales Representatives

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

Net Insurance Service Revenues and Net Service Revenues

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

Impact of Health Care Reform

The Patient Protection and Affordable Care Act and the Heath Care and Education Reconciliation Act of 2010, which we refer to collectively as the Act, entail sweeping health care reforms with staggered effective dates from 2010 through 2018, and many provisions of the Act require the issuance of additional guidance from the U.S. Departments of Labor and Health and Human Services, the 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 during the fourth quarter and, to a lesser extent, during the first quarter of the calendar year, in connection with renewals of the health insurance we provide for our WSEs, in the event that such renewals result in increased premiums that we pass on to

our clients. We have also historically experienced higher insurance claim volumes in the second and third quarters of a fiscal year than in the first and fourth quarters of a fiscal year, as WSEs typically access their health care providers more often in the second and third quarters of a fiscal year, 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 (loss), 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 (loss), excluding the effects of stock-based compensation, amortization of intangible assets, non-cash interest expense, debt prepayment premiums 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% for the three and six month periods ended June 30, 2015, from 39.5% for the three and six month periods ended June 30, 2014. Each of these effective tax rates exclude income tax on non-deductible stock-based compensation and discrete items including the cumulative effect of state law changes. Non-cash interest expense represents amortization and write-off of our debt issuance costs.

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

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

- Net Insurance Service Revenues and Net Service Revenues are reduced by the insurance costs that we pay to the insurance carriers;
- Adjusted EBITDA does not reflect interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect the amounts we paid in taxes or other components of our tax provision;
- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA and Adjusted Net Income do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA and Adjusted Net Income do not reflect the non-cash component of employee compensation;
- Although depreciation and amortization of intangible assets are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in our industry may calculate these measures or similar measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, you should consider Net Insurance Service Revenues, Net Service Revenues, Adjusted EBITDA and Adjusted Net Income alongside other financial performance measures, including total revenues, net income (loss) 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Insurance service revenues	$542,208	$442,746	$1,070,770	$868,783
Less: Insurance costs	517,994	400,195	1,001,197	781,352
Net Insurance Service Revenues	$24,214	$42,551	$69,573	$87,431

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Total revenues	$640,007	$525,006	$1,265,585	$1,033,918
Less: Insurance costs	517,994	400,195	1,001,197	781,352
Net Service Revenues	$122,013	$124,811	$264,388	$252,566

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income (loss)	$(1,308)	$6,221	$14,503	$7,761
Provision for income taxes	2,597	4,923	13,073	6,911
Stock-based compensation	4,883	2,923	8,803	5,070
Interest expense and bank fees	4,764	8,860	9,968	30,712
Depreciation	3,195	3,242	6,629	6,460
Amortization of intangible assets	10,608	13,267	21,825	26,816
Adjusted EBITDA	$24,739	$39,436	$74,801	$83,730

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income (loss)	$(1,308)	$6,221	$14,503	$7,761
Effective income tax rate adjustment	2,075	521	1,905	1,116
Stock-based compensation	4,883	2,923	8,803	5,070
Amortization of intangible assets	10,608	13,267	21,825	26,816
Non-cash interest expense	804	1,380	2,021	7,486
Debt prepayment premium	-	-	-	3,800
Income tax impact of pre-tax adjustments	(6,599)	(6,940)	(13,223)	(17,053)
Adjusted Net Income	$10,463	$17,372	$35,834	$34,996

Basis of Presentation and Key Components of Our Results of Operations

Total Revenues

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

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

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

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

Insurance Costs

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

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

Cost of Providing Services

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

Sales and Marketing Expenses

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

General and Administrative Expenses

General and administrative expenses consist primarily of compensation-related expenses, legal and other professional services fees and other general corporate expenses. We expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future due to increases in our legal and financial compliance costs in

connection with being a newly public company, although these expenses may fluctuate as a percentage of our total revenues from period to period depending on the timing of those expenses.

Systems Development and Programming Costs

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

Amortization of Intangible Assets

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

Depreciation

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

Other Income (Expense)

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

Provision for Income Taxes

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

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

Critical Accounting Policies, Estimates and Judgments

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

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

Recent Accounting Pronouncements

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

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

In January 2015, the FASB issued ASU 2015-01— Income Statement - Extraordinary and Unusual Items, as part of its 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. We adopted this guidance in 2014. The adoption did not have an effect on our 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. We adopted this guidance in 2014. The adoption did not have an effect on our consolidated financial statements.

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

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

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

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Consolidated Statement of Operations:	(in thousands)			
Professional service revenues	$97,799	$82,260	$194,815	$165,135
Insurance service revenues	542,208	442,746	1,070,770	868,783
Total revenues	640,007	525,006	1,265,585	1,033,918
Costs and operating expenses:				
Insurance costs	517,994	400,195	1,001,197	781,352
Cost of providing services (exclusive of depreciation and amortization of intangible assets) [1]	37,672	34,034	74,042	67,677
Sales and marketing [1]	41,119	34,992	78,743	66,829
General and administrative [1]	15,801	12,682	31,265	27,019
Systems development and programming costs [1]	7,633	6,565	14,858	12,459
Amortization of intangible assets	10,608	13,267	21,825	26,816
Depreciation	3,195	3,242	6,629	6,460
Total costs and operating expenses	634,022	504,977	1,228,559	988,612
Operating income	5,985	20,029	37,026	45,306
Other income (expense):				
Interest expense and bank fees	(4,764)	(8,860)	(9,968)	(30,712)
Other, net	68	(25)	518	78
Income before provision for income taxes	1,289	11,144	27,576	14,672
Provision for income taxes	2,597	4,923	13,073	6,911
Net income (loss)	$(1,308)	$6,221	$14,503	$7,761

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Cost of providing services	$1,214	$801	$1,972	$1,255
Sales and marketing	1,309	774	2,226	1,291
General and administrative	1,842	1,045	3,863	2,053
Systems development and programming costs	518	303	742	471
Total stock-based compensation expense	$4,883	$2,923	$8,803	$5,070

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Percentage of total revenues:								
Professional service revenues	15	%	16	%	15	%	16	%
Insurance service revenues	85	%	84	%	85	%	84	%
Total revenues	100	%	100	%	100	%	100	%
Costs and operating expenses:								
Insurance costs	81	%	76	%	79	%	76	%
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	6	%	6	%	6	%	7	%
Sales and marketing	6	%	7	%	6	%	6	%
General and administrative	2	%	2	%	2	%	3	%
Systems development and programming costs	1	%	1	%	1	%	1	%
Amortization of intangible assets	2	%	3	%	2	%	3	%
Depreciation	0	%	1	%	1	%	1	%
Total costs and operating expenses	99	%	96	%	97	%	96	%
Operating income	1	%	4	%	3	%	4	%
Other income (expense):								
Interest expense and bank fees	(1	%)	(2	%)	(1	%)	(3	%)
Other, net	0	%	(0	%)	0	%	0	%
Income before provision for income taxes	0	%	2	%	2	%	1	%
Provision for income taxes	0	%	1	%	1	%	1	%
Net income (loss)	(0	%)	1	%	1	%	1	%

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Percentage of Net Service Revenues:								
Professional service revenues	80	%	66	%	74	%	65	%
Net Insurance Service Revenues	20	%	34	%	26	%	35	%
Net Service Revenues	100	%	100	%	100	%	100	%
Other operating expenses:								
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	31	%	27	%	28	%	27	%
Sales and marketing	34	%	28	%	30	%	26	%
General and administrative	13	%	10	%	12	%	11	%
Systems development and programming costs	6	%	5	%	6	%	5	%
Amortization of intangible assets	9	%	11	%	8	%	11	%
Depreciation	3	%	3	%	3	%	3	%
Total other operating expenses	95	%	84	%	86	%	82	%
Operating income	5	%	16	%	14	%	18	%
Other income (expense):								
Interest expense and bank fees	(4	%)	(7	%)	(4	%)	(12	%)
Other, net	0	%	(0	%)	0	%	0	%
Income before provision for income taxes	1	%	9	%	10	%	6	%

Provision for income taxes	2 %	4 %	5 %	3 %
Net income (loss)	(1 %)	5 %	5 %	3 %

Three and Six Months Ended June 30, 2015 and 2014

Total Revenues

	Three months ended June 30,		Change 2015 vs. 2014		Six Months ended June 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Professional service revenues	$97,799	$82,260	$15,539	19%	$194,815	$165,135	$29,680	18%
Insurance service revenues	542,208	442,746	99,462	22%	1,070,770	868,783	201,987	23%
Total revenues	$640,007	$525,006	$115,001	22%	$1,265,585	$1,033,918	$231,667	22%
Key operating metrics:								
Total WSEs	302,375	258,985	43,390	17%				
Total Sales Representatives	486	388	98	25%				

Total revenues increased by $115.0 million, or 22%, for the three months ended June 30, 2015 compared to the same period of the prior year, and by $231.7 million, or 22%, for the six months ended June 30, 2015 compared to the same period of the prior year. Professional service revenues and insurance service revenues for both three-month periods represented 15% and 85%, respectively, of total revenues. Professional service revenues and insurance service revenues for both six-month periods represented 15% and 85%, respectively, of total revenues.

Professional service revenues increased by $15.5 million, or 19%, for the three months ended June 30, 2015 compared to the same period of the prior year. The increase was mainly attributable to our increase in Total WSEs. Professional service revenues increased by $29.7 million, or 18%, for the six months ended June 30, 2015 compared to the same period of the prior year. The increase was mainly attributable to our increase in Total WSEs. Partially offsetting the increase in each of the three and six months ended June 30, 2015 was a $2.3 million refund related to prior year payroll taxes received in the three months ended March 31, 2014.

Insurance service revenues increased by $99.5 million, or 22%, for the three months ended June 30, 2015 compared to the same period of the prior year. The increase was primarily due to our increase in Total WSEs and an increase of 5% in average insurance service revenues per WSE. Insurance service revenues increased by $202.0 million, or 23%, for the six months ended June 30, 2015 compared to the same period of the prior year. The increase in each of these periods was primarily due to our increase in Total WSEs and an increase of 4% in average insurance service revenues per WSE.

Total WSEs at June 30, 2015 increased by 43,390, or 17%, compared to Total WSEs at June 30, 2014, which was primarily driven by a net increase in total clients. Our Total Sales Representatives increased from 388 at June 30, 2014 to 486 at June 30, 2015, primarily due to our efforts to grow our sales force.

Insurance Costs

Three months ended June 30,		Change 2015 vs. 2014		Six Months ended June 30,		Change 2015 vs. 2014	
2015	2014	$	%	2015	2014	$	%
(in thousands, except percentages)							

Insurance costs	$517,994	$400,195	$117,799	29%	$1,001,197	$781,352	$219,845	28%

Insurance costs increased $117.8 million, or 29%, for the three months ended June 30, 2015 compared to the same period of the prior year. The increase resulted from an increase in Total WSEs and an increase of 11% 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. Insurance costs increased $219.8 million, or 28%, for the six months ended June 30, 2015 compared to the same period of the prior year. The increase resulted from an increase in Total WSEs and an increase of 9% 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. In particular, we experienced an increase in the volume of large acute claims for the three and six months ended June 30, 2015 compared to the same period of the prior year.

Net Insurance Service Revenues and Net Service Revenues

	Three months ended June 30,		Change 2015 vs. 2014		Six Months ended June 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Insurance service revenues	$542,208	$442,746	$99,462	22%	$1,070,770	$868,783	$201,987	23%
Less: Insurance costs	517,994	400,195	117,799	29%	1,001,197	781,352	219,845	28%
Net Insurance Service Revenues	$24,214	$42,551	$(18,337)	(43%)	$69,573	$87,431	$(17,858)	(20%)

	Three months ended June 30,		Change 2015 vs. 2014		Six Months ended June 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Total revenues	$640,007	$525,006	$115,001	22%	$1,265,585	$1,033,918	$231,667	22%
Less: Insurance costs	517,994	400,195	117,799	29%	1,001,197	781,352	219,845	28%
Net Service Revenues	$122,013	$124,811	$(2,798)	(2%)	$264,388	$252,566	$11,822	5 %

For the reasons set forth above with respect to the increases in our insurance service revenues and total revenues, offset in part by the increase in our insurance costs, our Net Insurance Service Revenues decreased by $18.3 million, or 43%, for the three months ended June 30, 2015 as compared to the same period of the prior year, and by $17.9 million, or 20%, for the six months ended June 30, 2015 as compared to the same period of the prior year. Our Net Service Revenues decreased by $2.8 million, or 2%, for the three months ended June 30, 2015 as compared to the same period of the prior year, and increased by $11.8 million, or 5%, for the six months ended June 30, 2015.

Other Operating Expenses

	Three months ended June 30,		Change 2015 vs. 2014		Six Months ended June 30,		Change 2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	$37,672	$34,034	$3,638	11 %	$74,042	$67,677	$6,365	9 %
Sales and marketing	41,119	34,992	6,127	18 %	78,743	66,829	11,914	18 %
General and administrative	15,801	12,682	3,119	25 %	31,265	27,019	4,246	16 %
Systems development and programming costs	7,633	6,565	1,068	16 %	14,858	12,459	2,399	19 %
Amortization of intangible assets	10,608	13,267	(2,659)	(20%)	21,825	26,816	(4,991)	(19%)
Depreciation	3,195	3,242	(47)	(1 %)	6,629	6,460	169	3 %
Total operating expenses	$116,028	$104,782	$11,246	11 %	$227,362	$207,260	$20,102	10 %

Cost of Providing Services

	Three months ended		Change		Six Months ended		Change	
	June 30,		2015 vs. 2014		June 30,		2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Compensation-related costs	$27,474	$24,924	$2,550	10%	$54,567	$49,019	$5,548	11%
Facilities	1,958	1,770	188	11%	3,841	3,381	460	14%
Information technology and communication	2,482	2,022	460	23%	5,002	4,517	485	11%
Other expenses	5,758	5,318	440	8 %	10,632	10,760	(128)	(1 %)
Total cost of providing services	$37,672	$34,034	$3,638	11%	$74,042	$67,677	$6,365	9 %

Cost of providing services increased by $3.6 million, or 11%, for the three months ended June 30, 2015 compared to the same period of the prior year. The increase was primarily attributable to a $2.6 million increase in compensation-related costs due to increased headcount to support our growth, as well as a $0.4 million increase in stock-based compensation expense, partially offset by $0.7 million in cost savings related to the administration of our insurance programs. Cost of providing services remained unchanged at 6% of total revenues in the three months ended June 30, 2015 and June 30, 2014. Cost of providing services increased to 31% of Net Service Revenues in the three months ended June 30, 2015 from 27% in the same period of the prior year as a result of lower Net Service Revenues.

Cost of providing services increased by $6.4 million, or 9%, for the six months ended June 30, 2015 compared to the same period of the prior year. The increase was primarily attributable to a $5.5 million increase in compensation-related costs due to increased headcount to support our growth and a $0.7 million increase in stock-based compensation expense. Additionally, facilities expense increased $0.5 million as a result of additional space being leased to support our growth. Cost of providing services decreased to 6% of total revenues in the six months ended June 30, 2015 from 7% in the same period of the prior year. Cost of providing services increased to 28% of Net Service Revenues in the six months ended June 30, 2015 from 27% in the same period of the prior year.

Sales and Marketing

	Three months ended		Change		Six Months ended		Change	
	June 30,		2015 vs. 2014		June 30,		2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Compensation-related costs	$28,707	$24,426	$4,281	18%	$55,437	$47,720	$7,717	16%
Marketing and advertising	5,351	4,678	673	14%	10,007	8,581	1,426	17%
Facilities	1,065	939	126	13%	2,085	1,713	372	22%
Other expenses	5,996	4,949	1,047	21%	11,214	8,815	2,399	27%
Total sales and marketing	$41,119	$34,992	$6,127	18%	$78,743	$66,829	$11,914	18%

Sales and marketing expenses for the three months ended June 30, 2015 increased by $6.1 million, or 18%, compared to the same period of the prior year. Of this increase, $4.3 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 $0.5 million increase in stock-based compensation expense. Marketing and advertising expenses increased $0.7 million, or 14%, primarily as a result of our effort to focus on market verticals and penetration. In order to support the growth in sales force, other expenses, including travel expenses and management information systems spending increased $1.0 million, or 21%. Sales and marketing expenses as a percentage of total revenues decreased to 6% in the three months ended June 30, 2015 from 7% in the same period of the prior year. As a percentage of Net Service Revenues, sales and marketing expenses increased to 34% in the three months ended June 30, 2015, from 28% in the same period of the prior year as a result of lower Net Service Revenues.

Sales and marketing expenses for the six months ended June 30, 2015 increased by $11.9 million, or 18%, compared to the same period of the prior year. Of this increase, $7.7 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 $0.9 million increase in stock-based compensation expense. Marketing and advertising expenses increased $1.4 million, or 17%, primarily as a result of our effort to focus on market verticals and penetration. In order to support the growth in sales force, other expenses including travel expenses and management information systems spending, increased $2.4 million, or 27%. Sales and marketing expenses as a percentage of total revenues remained unchanged at 6% in the six months ended June 30, 2015 and 2014. As a percentage of Net Service Revenues, sales and marketing expenses increased to 30% in the six months ended June 30, 2015 from 26% in the same period of the prior year as a result of lower Net Service Revenues.

General and Administrative

	Three months ended		Change		Six Months ended		Change	
	June 30,		2015 vs. 2014		June 30,		2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Compensation-related costs	$8,855	$8,212	$643	8 %	$18,399	$16,707	$1,692	10%
Legal and professional fees	3,014	1,133	1,881	166%	5,861	3,066	2,795	91%
Other expenses	3,932	3,337	595	18 %	7,005	7,246	(241)	(3 %)
Total general and administrative	$15,801	$12,682	$3,119	25 %	$31,265	$27,019	$4,246	16%

General and administrative expenses for the three months ended June 30, 2015 increased by $3.1 million, or 25%, compared to the same period of the prior year. Compensation-related costs increased $0.6 million compared to the same period of the prior year primarily due to a $0.8 million increase in stock-based compensation expenses. Legal and professional fees increased $1.9 million as a result of being a public company, and, therefore, being subject to the reporting requirements of the Sarbanes-Oxley Act. We are incurring additional costs, including, but not limited to, internal audit and regulatory compliance, which amounted to $1.0 million for the three months ended June 30, 2015. Other expense increased $0.6 million mainly due to an increase in bad debt reserves. General and administrative expenses remained unchanged at 2% of total revenues in the three months ended June 30, 2015 and 2014. As a

percentage of Net Service Revenues, general and administrative expenses increased to 13% for the three months ended June 30, 2015 from 10% in the same period of the prior year as a result of lower Net Service Revenues.

General and administrative expenses for the six months ended June 30, 2015 increased by $4.2 million, or 16%, compared to the same period of the prior year. Compensation-related costs increased $1.7 million compared to the same period of the prior year primarily due to a $1.8 million increase in stock-based compensation expenses. Legal and professional fees increased $2.8 million as a result of being a public company and, therefore, being subject to the reporting requirements of the Sarbanes-Oxley Act. We are incurring additional costs, including, but not limited to, internal audit and regulatory compliance, which amounted to $1.2 million for the three months ended June 30, 2015. General and administrative expenses decreased to 2% of total revenues in the six months ended June 30, 2015 from 3% in the same period of the prior year. As a percentage of Net Service Revenues, general and administrative expenses increased to 12% for the six months ended June 30, 2015 from 11% in the same period of the prior year as a result of lower Net Service Revenues.

Systems Development and Programming

	Three months ended		Change		Six Months ended		Change	
	June 30,		2015 vs. 2014		June 30,		2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Compensation-related costs	$4,957	$5,450	$(493)	(9 %)	$10,471	$10,310	$161	2 %
Other expenses	2,676	1,115	1,561	140%	4,387	2,149	2,238	104%
Total systems development and programming costs	$7,633	$6,565	$1,068	16 %	$14,858	$12,459	$2,399	19 %

Our systems development and programming costs for the three months ended June 30, 2015 increased by $1.1 million, or 16%, compared to the same period of the prior year. The increase was primarily due to an increase in consulting expenses to support and enhance our technology product delivery, offset by decreased compensation-related costs. Despite the increase, systems development and programming costs remained unchanged at 1% of total revenues in the three months ended June 30, 2015 and June 30, 2014. As a percentage of Net Service Revenues, systems development and programming costs increased to 6% in the six months ended June 30, 2015 from 5% in the same period of the prior year as a result of lower Net Service Revenues.

Our systems development and programming costs for the six months ended June 30, 2015 increased by $2.4 million, or 19%, compared to the same period of the prior year. The increase was primarily due to an increase in consulting expenses to support and enhance our technology product delivery. Despite the increase, systems development and programming costs remained unchanged at 1% of total revenues in the six months ended June 30, 2015 and June 30, 2014. As a percentage of Net Service Revenues, systems development and programming costs increased to 6% in the six months ended June 30, 2015 from 5% in the same period of the prior year as a result of lower Net Service Revenues.

Amortization of Intangible Assets and Depreciation

	Three months ended		Change		Six Months ended		Change	
	June 30,		2015 vs. 2014		June 30,		2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Amortization of intangible assets	$10,608	$13,267	$(2,659)	(20%)	$21,825	$26,816	$(4,991)	(19%)
Depreciation	$3,195	$3,242	$(47)	(1%)	$6,629	$6,460	$169	3 %

Our amortization of intangible assets decreased by $2.7 million, or 20%, for the three months ended June 30, 2015 compared to the same period of the prior year and by $5.0 million, or 19%, for the six months ended June 30, 2015 compared to the same period of the prior year, as a result of the expiration of useful lives of certain customer lists and non-compete agreements related to our previous acquisitions.

Other Income (Expense)

	Three months ended		Change		Six Months ended		Change	
	June 30,		2015 vs. 2014		June 30,		2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Interest expense and bank fees	$(4,764)	$(8,860)	$4,096	(46%)	$(9,968)	$(30,712)	$20,744	(68 %)
Other, net	$68	$(25)	$93	(372%)	$518	$78	$440	564%

Other income (expense) was primarily the result of interest expense under our credit facilities. In March 2014, we repaid $216.6 million of these facilities from the proceeds of our initial public offering, or IPO, which led to lower interest expense in the three and six months ended June 30, 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		Six Months ended		Change	
	June 30,		2015 vs. 2014		June 30,		2015 vs. 2014	
	2015	2014	$	%	2015	2014	$	%
	(in thousands, except percentages)							
Provision for income taxes	$2,597	$4,923	$(2,326)	(47%)	$13,073	$6,911	$6,162	89%
Effective tax rates	201.5%	44.2 %			47.4 %	47.1 %		

Our provision for income taxes for the three months ended June 30, 2015 decreased by $2.3 million compared to the same period of the prior year. Our effective income tax rate increased from 44.2% for the three months ended June 30, 2014 to 201.5% for the three months ended June 30, 2015, primarily due to the revaluation of deferred taxes resulting from a regulatory tax law change, which resulted in a charge of $2.0 million, offset in part by disqualifying dispositions of previously non-deductible stock-based compensation. The law change had a disproportionate impact on our effective tax rate for the three months ended June 30, 2015 due to the decrease in our income before provision for taxes.

Our provision for income taxes for the six months ended June 30, 2015 increased by $6.2 million compared to the same period of the prior year. Our effective income tax rate increased from 47.1% for the six months ended June 30, 2014 to 47.4% for the six months ended June 30, 2015, primarily due to the revaluation of deferred taxes resulting from a regulatory tax law change, which resulted in a charge of $2.0 million, offset in part by disqualifying dispositions of previously non-deductible stock-based compensation.

Liquidity and Capital Resources

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

WSE-related liabilities can fluctuate significantly due to various factors, including the day of the week on which a client payroll period ends, the existence of holidays at or immediately following a client payroll period-end and various federal and state compliance calendars. We report the advance collection from our clients as payroll funds

collected within WSE-related assets on our balance sheet. Our cash and cash equivalents reported on our balance sheet represent our corporate cash available to meet corporate liquidity requirements, capital spending and expansion plans, potential acquisitions, debt service requirements and other corporate operating cash needs.

Cash Flows

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

	Six Months Ended June 30,	
	2015	2014
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ 45,178	$ 53,657
Investing activities	(10,349)	(25,498)
Financing activities	(40,648)	(22,228)
Effect of exchange rates on cash and cash equivalents	(109)	1
Net increase (decrease) in cash and cash equivalents	$ (5,928)	$ 5,932

Cash Flows from Operating Activities

Net cash provided by operating activities was $45.2 million and $53.7 million for the six months ended June 30, 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 $10.3 million for the six months ended June 30, 2015, as compared to $25.5 million in the same period of the prior year. Investments to purchase property and equipment were $10.3 million for the six months ended June 30, 2015 compared to $8.7 million for the same period of 2014 reflecting continued investment in technology to enhance our product offerings. Additionally, we invested $16.8 million in debt securities in the six months ended June 30, 2014.

Cash Flows from Financing Activities

Net cash used in financing activities was $40.6 million for the six months ended June 30, 2015, compared to $22.2 million in the same period of the prior year. Net cash used in financing activities during the six months ended June 30, 2015 was attributable to $35.2 million in loan repayments and $30.4 million in stock repurchases, offset by $4.6 million of net proceeds received from the exercise of stock options, $2.7 million in proceeds from issuance of our common stock for the employee stock purchase plan and $17.7 million of excess income tax benefit recognized related to stock option exercises. Net cash used in financing activities during the six months ended June 30, 2014 was attributable to $243.0 million of loan repayments and $1.3 million in stock repurchases, offset by $218.6 million of net proceeds received from our IPO, $3.0 million of excess income tax benefit recognized related to stock option exercises, and $0.6 million of net proceeds received from the exercise of stock options .

Credit Facility

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

The Amended and Restated Credit Agreement provides for: (i) $375 million principal amount of “tranche A term loans,” (ii) $200 million principal amount of “tranche B term loans,” and (iii) a revolving credit facility of $75 million, which we refer to as the revolving credit facility. The proceeds of the tranche A term loans were used to refinance in part the tranche B-2 term loans outstanding under the original first lien credit facility. The proceeds of the tranche B term loans were used to (i) refinance the remaining tranche B-2 term loans outstanding under the original first lien credit facility, (ii) refinance other amounts outstanding under the original first lien credit facility and (iii) pay fees and expenses related thereto. The revolving credit facility replaced the revolving credit facility under the original first lien credit facility. The $75.0 million revolving credit facility includes capacity for a $30.0 million letter of credit facility and a $10.0 million swingline facility. The total unused portion of the revolving credit facility was $59.5 million as of June 30, 2015. As of June 30, 2015, we had $509.7 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

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

	Payments Due by Period				
	Total	Remaining fiscal year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	509,688	10,124	197,220	302,344	-
Interest on debt obligations	63,673	7,875	35,027	20,771	-
Workers compensation claim liabilities	152,212	28,995	42,189	23,007	58,021
Workers compensation premium and collateral liabilities	34,153	20,554	5,084	8,515	-
Capital lease obligations	275	36	140	99	-
Operating lease obligations	42,702	6,154	17,771	11,820	6,957
Purchase obligations	15,271	3,832	11,439	-	-
Uncertain tax positions	183	18	165	-	-

Total	$818,157	$ 77,588	$309,035	$366,556	$64,978

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

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

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

Our purchase obligations primarily consist of 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.

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

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 $783.0 million at June 30, 2015. Included in this amount were $52.3 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 m