TRINET GROUP INC
Form 10-Q
November 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-36373

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of October 31, 2016, the registrant had 68,829,209 shares of common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 160,558	$ 166,178
Restricted cash	14,563	14,557
Prepaid income taxes	6,310	4,105
Prepaid expenses	13,018	8,579
Other current assets	2,173	1,359
Worksite employee related assets	847,545	1,373,386
Total current assets	1,044,167	1,568,164
Workers compensation receivable	40,578	29,204
Restricted cash and available for sale investments	122,378	101,806
Property and equipment, net	53,141	37,844
Goodwill	289,207	289,207
Other intangible assets, net	32,424	46,772
Other assets	18,431	19,452
Total assets	$ 1,600,326	$ 2,092,449
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 18,461	$ 12,904
Accrued corporate wages	29,039	28,963
Current portion of notes payable and borrowings under capital leases, net	36,497	32,970
Other current liabilities	11,960	11,402
Worksite employee related liabilities	842,552	1,369,497
Total current liabilities	938,509	1,455,736
Notes payable and borrowings under capital leases, net, less current portion	431,638	460,965
Workers compensation liabilities	138,912	105,481
Deferred income taxes	54,411	54,641
Other liabilities	7,941	7,545
Total liabilities	1,571,411	2,084,368
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.000025 per share stated value; 20,000,000 shares authorized; no shares issued and outstanding at September 30, 2016 and December 31, 2015	—	—
Common stock, $0.000025 per share stated value; 750,000,000 shares authorized; 69,659,283 and 70,371,425 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	522,910	494,397
Accumulated deficit	(493,574)	(485,595)
Accumulated other comprehensive loss	(421)	(721)
Total stockholders' equity	28,915	8,081

Total liabilities and stockholders’ equity	$ 1,600,326	$ 2,092,449

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Professional service revenues	$110,493	$ 99,473	$332,489	$294,288
Insurance service revenues	659,964	568,535	1,916,753	1,639,305
Total revenues	770,457	668,008	2,249,242	1,933,593
Costs and operating expenses:				
Insurance costs	609,422	534,481	1,775,784	1,535,678
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	50,142	37,540	139,881	111,582
Sales and marketing	41,470	44,997	133,978	123,740
General and administrative	22,477	17,726	69,078	48,991
Systems development and programming costs	8,124	6,991	20,970	21,849
Amortization of intangible assets	4,662	10,459	14,647	32,284
Depreciation	5,188	4,132	13,663	10,761
Total costs and operating expenses	741,485	656,326	2,168,001	1,884,885
Operating income	28,972	11,682	81,241	48,708
Other income (expense):				
Interest expense and bank fees	(5,597)	(4,685)	(15,677)	(14,653)
Other, net	313	355	434	873
Income before provision for income taxes	23,688	7,352	65,998	34,928
Provision for income taxes	9,107	4,255	27,558	17,328
Net income	$14,581	$ 3,097	$38,440	$17,600
Net income per share:				
Basic	$0.21	$ 0.04	$0.55	$0.25
Diluted	$0.20	$ 0.04	$0.53	$0.24
Weighted average shares:				
Basic	70,187,989	70,237,737	70,478,266	70,247,035
Diluted	71,964,603	72,087,917	72,126,060	72,757,277

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$14,581	$3,097	$38,440	$17,600
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on available for sale investments	(83)	11	166	48
Foreign currency translation adjustments	(42)	(130)	134	(239)
Total other comprehensive income (loss), net of tax	(125)	(119)	300	(191)
Comprehensive income	$14,456	$2,978	$38,740	$17,409

See accompanying notes.

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

	Nine Months Ended September 30,	
	2016	2015
Operating activities		
Net income	$38,440	$17,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,810	42,036
Deferred income taxes	(346)	1,835
Stock-based compensation	20,169	12,991
Excess tax credits received from equity incentive plan activity	(2,591)	(20,327)
Changes in operating assets and liabilities:		
Restricted cash and available for sale investments	(31,409)	(21,198)
Prepaid expenses and other current assets	(5,253)	(3,201)
Workers compensation receivables	(11,374)	3,294
Other assets	438	(14,585)
Accounts payable	4,538	2,522
Prepaid income taxes	386	27,574
Accrued corporate wages and other current liabilities	4,548	9,103
Workers compensation and other liabilities	33,856	47,419
Worksite employee related assets	525,841	768,010
Worksite employee related liabilities	(526,945)	(768,552)
Net cash provided by operating activities	78,108	104,521
Investing activities		
Acquisitions of businesses	(300)	(4,750)
Purchases of restricted investments	(14,959)	(14,989)
Proceeds from maturities of restricted investments	25,790	1,275
Purchase of property and equipment	(27,942)	(14,747)
Net cash used in investing activities	(17,411)	(33,211)
Financing activities		
Proceeds from issuance of notes payable	57,978	—
Payments for extinguishment of debt	(57,563)	—
Payment of debt issuance costs	(1,376)	—
Repayment of notes payable and capital leases	(27,506)	(40,493)
Proceeds from issuance of common stock on exercised options	3,584	6,464
Proceeds from issuance of common stock on employee stock purchase plan	2,304	2,723
Repurchase of common stock	(43,747)	(48,364)
Awards effectively repurchased for required employee withholding taxes	(2,672)	(576)
Excess tax credits received from equity incentive plan activity	2,591	20,327
Tax credit received for deductible IPO transaction costs	—	822
Net cash used in financing activities	(66,407)	(59,097)
Effect of exchange rate changes on cash and cash equivalents	90	(239)
Net increase in cash and cash equivalents	(5,620)	11,974
Cash and cash equivalents at beginning of period	166,178	134,341
Cash and cash equivalents at end of period	$160,558	$146,315

Supplemental disclosures of cash flow information		
Cash paid for interest	$11,651	$11,378
Cash paid for income taxes, net	27,650	1,467
Supplemental schedule of noncash investing and financing activities		
Payable for purchase of property and equipment	1,363	68

See accompanying notes.

TriNet Group, Inc. and Subsidiaries
NOTES TO CONDENSED 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 comprehensive human resources (HR), solutions for small to midsize businesses, or SMBs, across a number of industries under a co-employment model. The Company's HR solutions are designed to manage an increasingly complex set of HR regulations, costs, risks and responsibilities for its clients, allowing them to focus on operating and growing their core businesses. These HR solutions include offerings, such as multi-state payroll processing and tax administration, employee benefits programs (including health insurance and retirement plans), workers compensation insurance and claims management, federal, state and local labor, employment and benefit law compliance, risk mitigation, expense and time management, human capital consulting and other services.

TriNet's proprietary, cloud-based HR software systems are used by its clients and their employees, whom the Company refers to as worksite employees, or WSEs, to store and manage their core HR-related information and conduct a variety of HR-related transactions. In addition, TriNet's teams of in-house HR professionals also provide additional services upon request to support various stages of TriNet clients' growth, including talent management, recruiting and training, performance management consulting or other consulting services.

TriNet's clients are distributed across a variety of industries, including technology, life sciences, not-for-profit, professional services, financial services, property management, retail, manufacturing, and hospitality. TriNet's sales and marketing, client services and product development teams are increasingly focused on specific industry verticals. This vertical approach helps gives us a better understanding of the HR needs facing SMBs in particular industries, which we believe helps us provide HR solutions and services tailored to the specific needs of clients in these verticals.

Segment Information

The Company operates in one reportable segment. All of the Company's service revenues are generated from external clients. Less than 1% of revenue 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

These unaudited condensed consolidated financial statements (Financial Statements) and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting and, in the opinion of management, reflect all adjustments, consisting of normally recurring adjustments, necessary for fair presentation of the interim financial results of the Company. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In addition, all intercompany accounts and transactions have been eliminated in consolidation. Therefore, these Financial Statements and notes 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, 2015.

The accompanying unaudited condensed consolidated balance sheets present the current assets and current liabilities directly related to the processing of HR transactions as WSE-related assets and WSE-related liabilities, respectively. WSE-related assets consist 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 consist of client 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.

Certain prior period amounts in the Financial Statements have been reclassified to conform to the current presentation. The results of the nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016.

Seasonality and Insurance Variability

The Company's business is affected by cyclicality in business activity and WSE behavior. Historically, the Company has experienced its highest monthly addition of WSEs, as well as its highest monthly levels of client attrition, in the month of January, primarily because clients that change their payroll service providers tend to do so at the beginning of a calendar year. In addition, the Company experiences higher levels of client attrition in connection with renewals of the health insurance TriNet sponsors for its WSEs, in the event that such renewals result in higher costs to its clients. The Company has also historically experienced higher insurance claim volumes in the second and third quarters of the year than in the first and fourth quarters, as WSEs typically access their health care providers more often in the second and third quarters, which has negatively impacted the Company's insurance costs in these quarters. The Company has also experienced variability on a quarterly basis in the amount of our health and workers compensation insurance costs due to the number and severity of insurance claims being unpredictable. These historical trends may change, and other seasonal trends and variability may develop which could 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 reserve estimates, health plan reserve estimates, 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 management believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15—Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendment is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, as part of the Simplification Initiative. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. The amendment is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2016. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02—Leases. The amendment requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The amendment is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03—Simplifying the Presentation of Debt Issuance Costs, and, in August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. These ASUs require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt, which is consistent with the presentation of debt discounts and premiums. The presentation and subsequent measurement of debt issuance costs associated with lines of credit, may be presented as an asset and amortized ratably over the term of the line of credit arrangement, regardless of whether there are outstanding borrowings on the arrangement. The recognition and measurement guidance for debt issuance costs are not affected by these ASUs. The Company adopted these ASUs as of March 31, 2016. The adoption of these ASUs resulted in a reclassification of unamortized debt issuance costs of $2.4 million from other current assets to current portion of notes payable and borrowings under capital leases and $3.4 million from other assets to notes payable and borrowings under capital leases, less current portion, as of December 31, 2015. Unamortized debt issuance costs related to the Company’s revolving credit facility will remain classified as an other asset in the accompanying consolidated balance sheets. The adoption of this guidance did not have any impact on the Company’s consolidated statements of operations, comprehensive income or cash flows.

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. In March, April and May 2016, the FASB issued ASU 2016-08 Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10 Identifying Performance Obligations and Licensing and ASU 2016-12 Narrow-Scope Improvements and Practical Expedients, respectively, providing further clarification to be considered when implementing ASU 2014-09. The Company has not yet selected a method of adoption and is currently evaluating the effect that the amendments will have on the consolidated financial statements.

NOTE 2. WORKSITE EMPLOYEE-RELATED ASSETS AND LIABILITIES

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

	September 30, 2016	December 31, 2015
Worksite employee-related assets:		
Restricted cash	$ 113,934	$ 92,917
Restricted investments	2,319	3,819
Payroll funds collected	442,329	859,322
Unbilled revenue, net of advance collections of $5,504 and $11,875 at September 30, 2016 and December 31, 2015, respectively	268,480	213,837
Accounts receivable, net of allowance for doubtful accounts of $430 and $1,158 at September 30, 2016 and December 31, 2015, respectively	4,701	5,060
Prepaid health plan expenses	6,692	8,088
Workers compensation receivables	1,860	2,428
Prepaid workers compensation expenses	3,057	744
Other payroll assets	4,173	187,171
Total worksite employee-related assets	$ 847,545	$ 1,373,386
Worksite employee-related liabilities:		
Unbilled wages accrual	$ 254,267	$ 202,396
Payroll taxes payable	312,097	883,608
Health benefits payable	131,038	128,028
Customer prepayments	38,143	57,758
Workers compensation payable	64,432	66,174
Other payroll deductions	42,575	31,533
Total worksite employee-related liabilities	$ 842,552	$ 1,369,497

Other payroll assets and payroll taxes payable above include a receivable due from one client at December 31, 2015 for $181 million related to an end of year payroll tax liability for which funding was received in January 2016. Payroll taxes payable, workers compensation payable and health benefits payable also include the related amounts of approximately 2,500 Company employees.

NOTE 3. WORKERS COMPENSATION ASSETS AND LIABILITIES

The Company has agreements with various insurance carriers to provide workers compensation insurance coverage for worksite employees, including agreements in which either the Company retains custody of funds in restricted accounts or remits funds to carriers to pay future claims. Insurance carriers are responsible for administrating and paying claims. The Company is responsible for reimbursing each carrier up to a deductible limit per occurrence. Assets held by third parties to cover claim liabilities represent prefunded claim obligations paid to carriers in excess of estimated total claim liabilities and are applied to incurred claims. Any excess claim funds held by the carrier can be returned to the Company based on their agreements with the Company.

The following summarizes the activities in the balance sheet for unpaid claims and claims adjustment expenses within workers compensation assets and liabilities (in thousands):

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Liability for unpaid claims and claims adjustment at beginning of period	$190,102	$148,034
Incurred related to:		
Current year	78,063	89,137
Prior years	12,951	26,391
Total incurred	91,014	115,528
Paid related to:		
Current year	(9,016)	(16,376)
Prior years	(49,593)	(57,084)
Total paid	(58,609)	(73,460)
Liability for unpaid claims and claims adjustment at end of period	$222,507	$190,102
Assets held by third parties to cover claim liabilities	(73,277)	(58,522)
Workers compensation premiums and other liabilities	12,761	9,455
Other workers compensation assets	(1,085)	(1,012)
Total net workers compensation liabilities	$160,906	$140,023
Location on Condensed Consolidated Balance Sheet:		
Workers compensation liabilities		
Current portion included in worksite employee-related liability	$64,432	$66,174
Long term portion	138,912	105,481
Total workers compensation liabilities	$203,344	$171,655
Workers compensation receivables		
Current portion included in worksite employee-related asset	$(1,860)	$(2,428)
Long term portion	(40,578)	(29,204)
Total workers compensation receivables	$(42,438)	$(31,632)
Total net workers compensation liabilities	$160,906	$140,023

Incurred claims related to prior years represent changes in estimates for ultimate losses on workers compensation claims.

As of September 30, 2016 and December 31, 2015, the company recorded $59.8 million and $49.8 million, respectively, in restricted cash and restricted investments within WSE-related assets in the accompanying condensed consolidated balance sheets. In addition, at September 30, 2016 and December 31, 2015, $122.4 million and $101.8 million, respectively, were recorded as restricted long-term cash and available for sale investments. These funds remain restricted until the plan year to which they relate are settled.

NOTE 4. MARKETABLE SECURITIES AND FAIR VALUE MEASUREMENTS

At September 30, 2016, the Company's noncurrent restricted cash and available for sale investments totaling $122.4 million, includes $54.0 million of available for sale marketable securities and $68.4 million of cash. At December 31, 2015, the Company's noncurrent restricted cash and available for sale investments totaling $101.8 million, includes $63.1 million of available for sale marketable securities and $38.7 million of cash. The Company's restricted investments within WSE-related assets include $2.3 million of certificates of deposit as of September 30, 2016 and December 31, 2015. The available for sale marketable securities as of September 30, 2016 and December 31, 2015 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2016:				
U.S. treasuries	$ 53,376	$ 152	$ (12)	$ 53,516
Mutual funds	500	9	—	509
Total investments	$ 53,876	$ 161	$ (12)	$ 54,025
December 31, 2015:				
U.S. treasuries	$ 64,226	$ 9	$ (144)	$ 64,091
Mutual funds	500	4	—	504
Total investments	$ 64,726	$ 13	$ (144)	$ 64,595

There were no realized gains or losses for the nine months ended September 30, 2016 and 2015. As of September 30, 2016, all of the Company's U.S. treasuries had contractual maturity dates of less than three years.

As of September 30, 2016 and December 31, 2015, the Company had de minimis and $0.1 million in gross unrealized losses, respectively, in its U.S. Treasury securities. The fair value of the securities in an unrealized loss position represented approximately 28% and 81% of the total fair value of all U.S. Treasury securities as of September 30, 2016 and December 31, 2015, respectively. Unrealized losses are principally caused by changes in interest rates. In analyzing an issuer's financial condition, the Company considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As the Company has the ability and intent to hold debt securities until recovery, 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 at measurement date. 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 for identical assets or liabilities, such as quoted prices in active markets
- Level II—inputs other than the quoted prices in active markets that are observable either directly or indirectly
- Level III—unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions

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

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

	Total Fair Value	Level I	Level II	Level III
September 30, 2016:				
Certificates of deposit	$2,319	$2,319	$ —	$ —
U.S. treasuries	53,516	53,516	—	—
Mutual funds	509	509	—	—
Total	$56,344	$56,344	$ —	$ —
December 31, 2015:				
Certificates of deposit	$2,319	$2,319	$ —	$ —
U.S. treasuries	64,091	64,091	—	—
Mutual funds	504	504	—	—
Total	$66,914	$66,914	$ —	$ —

There were no transfers between Level I and Level II assets during the nine months ended September 30, 2016 or the year ended December 31, 2015.

As of September 30, 2016 and December 31, 2015, certificates of deposit were held by domestic financial institutions, which are presented as restricted investments within WSE-related assets as described in Note 2.

The carrying value of the Company’s financial instruments not measured at fair value, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, approximates fair value due to their relatively short term nature. The fair value of these instruments would be categorized as Level II of the fair value hierarchy, with the exception of cash and cash equivalents, and restricted cash, which would be categorized as Level I.

At September 30, 2016 and December 31, 2015, the carrying value of the Company’s notes payable of $472.5 million and $499.6 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 5. NOTES PAYABLE AND BORROWINGS UNDER CAPITAL LEASES

As of September 30, 2016, notes payable and borrowings under capital leases consisted of the following (in thousands):

	September 30, 2016	December 31, 2015	Annual Contractual Interest Rate	Effective Interest Rate	Maturity Date
Term loan A	$ 337,500	$ 351,563	3.09 % (1)	3.15 %	July 2019
Term loan B	—	148,000	N/A	N/A	July 2017
Term loan A-2	135,000	—	2.97 % (2)	2.99 %	July 2019
Total term loans	472,500	499,563			
Deferred loan costs	(4,490)	(5,781)			
Capital leases	125	153			
Less: current portion of notes payable and borrowings under capital leases	(36,497)	(32,970)			
Long term portion	$ 431,638	$ 460,965			

(1) Bears interest at LIBOR plus 2.25% or the prime rate plus 1.25% at the Company's option, subject to certain rate adjustments based upon the Company's total leverage ratio.

(2) Bears interest at LIBOR plus 2.125% or the prime rate plus 1.125% at the Company's option, subject to certain rate adjustments based upon the Company's total leverage ratio.

In July 2016, the Company refinanced its Amended and Restated First Lien Credit Agreement (Credit Agreement). The Company exchanged its $135 million of outstanding tranche B term loans maturing July 2017 with substantially the same amount of the new tranche A-2 term loans maturing July 2019. The $342 million of existing tranche A term loans and the $75 million revolving credit facility were not changed. As part of the $135 million refinancing transaction, $57.6 million was recorded as an extinguishment, and $77.0 million was rolled over into the new tranche A-2 term loans and was treated as a debt modification.

The proceeds of the tranche A-2 term loans were used to (i) refinance the remaining tranche B term loans outstanding under the Credit Agreement and (ii) pay related fees and expenses. As a result of this refinancing, approximately $1.4 million in fees and costs were incurred, of which $0.8 million were recorded as deferred loan costs with the remainder expensed. Also as a result of this refinancing, the Company expensed $0.3 million of the loan fees associated with a previous refinancing of the Company's Credit Agreement.

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), and (ii) net cash proceeds from certain non-ordinary course asset sales and casualty and condemnation proceeds (subject to reinvestment rights and other exceptions).

The Tranche A and A-2 term loans will be repaid in quarterly installments in aggregate annual amounts as follows (in thousands):

Year ending December 31:	
2016	$9,563
2017	38,250
2018	41,438
2019	383,249
Total	$472,500

The Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries. The 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 and a maximum total leverage ratio, currently at 4.25 to 1.00. The Company was in compliance with these financial covenants under the credit facilities at September 30, 2016.

The credit facility is secured by substantially all of the Company’s assets and the assets of the borrower and its subsidiaries, other than specifically excluded assets.

NOTE 6: STOCKHOLDERS’ EQUITY

Equity-Based Incentive Plans

In 2000, the Company established the 2000 Equity Incentive Plan (the 2000 Plan), which provided for granting incentive stock options, nonstatutory stock options, bonus awards and restricted stock awards to eligible employees, directors, and consultants of the Company. In December 2009, the board of directors approved the 2009 Equity Incentive Plan (the 2009 Plan) as the successor to and continuation of the 2000 Plan. As of the 2009 Plan effective date, remaining shares available for issuance under the 2000 Plan were cancelled and became available for issuance under the 2009 Plan. No additional stock awards will be granted under the 2000 Plan. The 2009 Plan provides for the grant of the following awards to eligible employees, directors, and consultants: incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards, and other stock awards. Incentive stock options may only be granted to employees. Non-employee directors are eligible to receive restricted stock units (RSUs) automatically at designated intervals over their period of continuous service on the board of directors. 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, 2016, an additional 3,166,714 shares were automatically reserved for issuance under the amended 2009 Plan.

Stock Options

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 generally have a maximum contractual term of 10 years. For employees who hold greater than 10% of the stock or voting power of the Company, incentive stock options are granted at 110% of fair market value and have a maximum term of five years. Options granted to non-employee directors upon their initial election or appointment generally vest at the rate of 33% of the total options granted on the first anniversary of the option grant date, with 1/36 of the total options granted vesting each month thereafter. All other options granted to non-employee directors generally fully vest on the first anniversary of the option grant date. Before 2015, options granted to employees generally vested over four years with 25% of the total options granted vesting on the first anniversary of the grant date with the remaining options vesting in equal monthly installments over the three years thereafter. Starting in 2015, options granted to newly hired employees generally vest at a rate of 25% of the total options granted on the first anniversary of the grant date with 1/16 of the total options granted vesting on the 15th day of the second month of each calendar quarter thereafter. Options granted to existing employees generally vest at a rate of 1/16 of the total options granted on the 15th day of the second month of each calendar quarter following the grant date.

Restricted Stock Units

The fair value of Company RSUs is equal to the fair value of the Company’s common stock on the grant date. RSUs granted to non-employee directors generally fully vest on the first anniversary of the grant date. RSUs granted to newly hired employees generally vest at a rate of 25% of the total RSUs granted on the first anniversary of the grant date with 1/16 of the total RSUs granted vesting on the 15th day of the second month of each calendar quarter thereafter. RSUs granted to existing employees generally 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.

Performance-based Restricted Stock Units

In March 2015, the Company granted performance-based restricted stock units (PSUs) to its executives. Performance is measured in tranches under these PSUs over 12-month, 24-month and 36-month periods that each start on January 1, 2015. PSUs are credited following each tranche measurement period and are capped at 150% of the total PSU target grant for the first and second measurement period. The maximum potential earned amount tied to the full three-year performance period is capped at 200% of the total PSU target grant. The PSUs will be credited and ultimately vest over the three tranche measurement periods under the PSUs based on the Company’s attainment of financial performance goals as well as the executive's continued employment through each vesting date. 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 12-month, 24-month and 36-month tranche measurement periods of the PSUs. The Company began recording stock-based compensation expense for these tranches in March 2015 based on the grant date fair values of the PSUs, adjusted for forfeitures, when the financial performance goals were established. In addition, these compensation expenses are recognized ratably over the vesting period based on the probability of the number of awards expected to vest at each reporting date.

Equity incentive plan activity for the nine months ended September 30, 2016 is summarized as follows:

Equity Incentive Plan Activity	Shares Available for Grant	
Balance at December 31, 2015	4,991,583	
Authorized	3,166,714	
Granted	(2,195,407	)
Forfeited	400,766	
Expired	65,626	
Shares withheld for taxes and not issued	151,826	
Balance at September 30, 2016	6,581,108	

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The following table summarizes stock option activity under the Company's equity-based plans for the nine months ended September 30, 2016:

Stock Option Activity	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2015	4,446,149	$ 8.96	7.56	$ 52,108
Exercised	(931,330)	3.85		
Forfeited	(231,625)	18.45		
Expired	(65,626)	28.59		
Balance at September 30, 2016	3,217,568	$ 9.35	6.88	$ 42,872
Exercisable at September 30, 2016	2,126,351	$ 7.33	6.61	$ 31,741
Vested and expected to vest at September 30, 2016	3,160,624	$ 9.21	6.86	$ 42,442

There were no stock options granted during the nine months ended September 30, 2016. The weighted average grant date fair value of stock options granted during the three months ended September 30, 2015 was $8.09 per share. The weighted average grant date fair value of stock options granted during the nine months ended September 30, 2015 was $12.85 per share. The total grant date fair value of options vested for the three months ended September 30, 2016 and 2015 was $1.6 million and $1.8 million, respectively. The total grant date fair value of options vested for the nine months ended September 30, 2016 and 2015 was $5.3 million and $7.5 million, respectively.

The total intrinsic value of options exercised for the three months ended September 30, 2016 and 2015 was $5.7 million and $7.3 million, respectively. The total intrinsic value of options exercised for the nine months ended September 30, 2016 and 2015 was $13.9 million and $50.3 million, respectively. Cash received from options exercised during the nine months ended September 30, 2016 and 2015 was $3.6 million and $6.5 million, respectively. The exercise price of all options granted was equal to the fair value of the common stock on the date of grant.

As of September 30, 2016, unrecognized compensation expense, net of forfeitures, associated with nonvested options outstanding was $7.2 million and is expected to be recognized over a weighted average period of 1.56 years.

The following table summarizes RSU activity under the Company's equity-based plans for the nine months ended September 30, 2016:

Restricted Stock Unit Activity	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2015	956,687	$ 28.03
Granted	2,195,407	$ 18.09
Vested	(511,210)	$ 24.13
Forfeited	(145,267)	$ 22.95
Nonvested at September 30, 2016	2,495,617	$ 20.37

The total grant date fair value of RSUs granted in the three months ended September 30, 2016 and 2015 was $3.8 million and $3.0 million, respectively. The total grant date fair value of RSUs granted in the nine months ended September 30, 2016 and 2015 was $39.7 million and $27.9 million, respectively. The total grant date fair value of RSUs vested in the three months ended September 30, 2016 and 2015 was $3.7 million and $1.2 million, respectively. The total grant date fair value of RSUs vested in the nine months ended September 30, 2016 and 2015 was $12.3 million and $2.3 million, respectively. As of September 30, 2016, unrecognized compensation expense, net of forfeitures, associated with the nonvested RSUs outstanding was $45.3 million, and is expected to be recognized over a weighted average period of 2.90 years.

The following table summarizes PSU activity under the Company's equity-based plans for the nine months ended September 30, 2016:

Performance Based Restricted Stock Unit Activity	Number of Units	Weighted Average Grant Date Fair Value
Outstanding units at December 31, 2015	173,286	$ 33.51
Granted	—	$ —
Units converted	—	$ —
Forfeited	(23,874)	$ 33.51
Outstanding units at September 30, 2016	149,412	$ 33.51

As of September 30, 2016, there was $0.5 million of total unrecognized compensation expense, net of estimated forfeitures, associated with nonvested PSUs outstanding, which is expected to be recognized over a period of 1.25 years.

Employee Stock Purchase Plan

The Company adopted the 2014 Employee Stock Purchase Plan (ESPP) in February 2014, which became effective on March 26, 2014. The ESPP was approved with a reserve of 1.1 million shares of common stock for future issuance under various terms provided for in the ESPP, which will automatically increase on January 1 of each year from 2015 through 2024 by the lesser of 1% of the total number of shares outstanding on December 31 of the preceding calendar year or 1,800,000 shares. On January 1, 2016, an additional 703,714 shares were automatically reserved for issuance under the ESPP. The purchase price is 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. Employees may contribute a minimum of 1% and a maximum of 15% of their earnings. During the nine months ended September 30, 2016, employees purchased 147,354 shares under the ESPP at a price of $15.64 per share for cash proceeds of $2.3 million.

Stock Repurchases

In May 2014, the board of directors authorized a program to repurchase in the aggregate up to $15 million of the Company's outstanding common stock. The board of directors subsequently approved incremental increases to the ongoing stock repurchase program of an additional $30 million in November 2014, an additional $50 million in June 2015 and an additional $50 million in February 2016. In 2015, the Company repurchased approximately $48.4 million of its outstanding common stock. During the nine months ended September 30, 2016, the Company repurchased 2,150,210 shares of common stock for $43.7 million. As of September 30, 2016, $37.9 million remained available for further repurchases of the Company's common stock under the Company's ongoing stock repurchase program. Stock repurchases under the program are primarily intended to offset the dilutive effect of share-based employee incentive compensation.

Stock-Based Compensation

Stock-based compensation expense of $20.2 million and $13.0 million was recognized for the nine months ended September 30, 2016 and 2015, respectively. Income tax benefit of $7.1 million and $4.2 million was recognized relating to stock-based compensation expense for the nine months ended September 30, 2016 and 2015, respectively. The tax benefit realized from stock options exercised was $4.1 million and $16.4 million for the nine months ended September 30, 2016 and 2015, 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	Nine Months Ended September 30,

	September 30,			
	2016	2015	2016	2015
Expected term (in years)	N/A	6.11	N/A	6.08-6.11
Expected volatility	N/A	46 %	N/A	39-46%
Risk-free interest rate	N/A	1.62%	N/A	1.62-1.96%
Expected dividend yield	N/A	0 %	N/A	0 %

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ESPP Assumptions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Expected term (in years)	0.50	0.50	0.50	0.50
Expected volatility	43 %	43 %	43-76%	34-43%
Risk-free interest rate	0.38%	0.08%	0.33-0.38%	0.07-0.08%
Expected dividend yield	0 %	0 %	0 %	0 %

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of providing services	$1,605	$1,079	$5,044	$3,051
Sales and marketing	1,491	1,029	5,119	3,255
General and administrative	2,544	1,633	8,161	5,497
Systems development and programming costs	624	447	1,845	1,188
	$6,264	$4,188	$20,169	$12,991

NOTE 7: EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$14,581	$3,097	$38,440	$17,600
Weighted average shares of common stock outstanding	70,188	70,238	70,478	70,247
Basic EPS	$0.21	$0.04	$0.55	$0.25
Net income	$14,581	$3,097	$38,440	$17,600
Weighted average shares of common stock	70,188	70,238	70,478	70,247
Dilutive effect of stock options and restricted stock units	1,777	1,850	1,648	2,510
Weighted average shares of common stock outstanding	71,965	72,088	72,126	72,757
Diluted EPS	$0.20	$0.04	$0.53	$0.24
Common stock equivalents excluded from income per diluted share because of their anti-dilutive effect	817	1,321	912	957

NOTE 8. INCOME TAXES

The Company is subject to income taxation in the United States and Canada. However, business is conducted primarily in the United States. The effective income tax rate differs from the statutory rate primarily due to state taxes, non-deductible stock-based compensation, tax credits, non-deductible charges, changes in uncertain tax positions, and other discrete items. The Company makes estimates and judgments about its future taxable income based on assumptions that are included in the Company's plans. 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 38.4% and 57.9% for the three months ended September 30, 2016 and 2015, respectively, and 41.8% and 49.6% for the nine months ended September 30, 2016 and 2015, respectively. The decrease is primarily due to a tax benefit related to prior year state income tax adjustments recorded in the three months ended September 30, 2016 and an expense related to revaluation of deferred taxes resulting from regulatory state tax law changes recorded in the three months ended September 30, 2015.

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, 2011. The Company paid assessments of tax related to the disallowance of employment tax credits totaling $10.5 million in connection with the Internal Revenue Service's (IRS) examination of Gevity HR, Inc. and its subsidiaries, which was acquired by TriNet in June 2009. On June 28, 2016, the Company filed a complaint in the United States District Court for the Middle District of Florida seeking a refund of the amounts previously paid to the IRS. With regard to these employment tax credits, the Company believes it is more likely than not that the Company will prevail in having these amounts refunded from the tax authorities. Therefore, no reserve has been recognized related to this matter.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases office facilities, including its headquarters and other facilities, and equipment under non-cancelable operating leases. The Company also leases certain software and furniture, fixtures, and equipment under capital leases. The lease agreements generally provide for rental payments on a graduated basis and for options to renew, which could increase future minimum lease payments if exercised. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid. Rent expense for the three months ended September 30, 2016 and 2015 was $4.3 million and $3.2 million, respectively. Rent expense for the nine months ended September 30, 2016 and 2015 was $12.2 million and $9.5 million, respectively.

Operating Covenants

To meet various states’ licensing requirements and maintain accreditation by the Employer Services Assurance Corporation, the Company is subject to various minimum working capital and net worth requirements. As of September 30, 2016, the Company believes it has fully complied in all respects with all applicable state regulations regarding minimum net worth, working capital and all other financial and legal requirements. Further, the Company has maintained positive working capital throughout the period covered by the financial statements.

Contingencies

On or about August 7, 2015, Howard Welgus, a purported stockholder of the Company, filed a putative securities class action lawsuit arising under the Securities Exchange Act of 1934 in the United States District Court for the Northern District of California. The case has not been certified as a class action, although it purports to be filed on behalf of purchasers of the Company’s common stock between May 5, 2014 and August 3, 2015, inclusive. The name of the case is Welgus v. TriNet Group, Inc. et al. No stockholder other than Mr. Welgus submitted a motion for appointment as lead plaintiff to represent the putative class, and, on December 3, 2015, the Court appointed Mr. Welgus as lead plaintiff. On February 1, 2016, Mr. Welgus filed a consolidated complaint. The defendants named in that complaint were the Company and certain of its officers and directors, as well as General Atlantic, LLC, a significant shareholder, and formerly majority shareholder, of the Company. Shortly before the scheduled date for the Company’s motion to dismiss the consolidated complaint, Mr. Welgus sought leave to further amend the consolidated complaint. The amended complaint was deemed filed by Mr. Welgus on April 1, 2016. The amended complaint expanded the class period to March 27, 2014 through February 29, 2016, and added as defendants the underwriters of the Company’s initial public offering and additional directors of the Company. The amended complaint generally alleges that the Company and other defendants caused damage to purchasers of the Company’s stock by misrepresenting and/or failing to disclose facts generally pertaining to alleged trends affecting health insurance and workers compensation claims. On June 20, 2016, the Company filed a motion to dismiss the amended complaint in its entirety. On August 19, 2016, Mr. Welgus filed an opposition to the motion, which is now fully briefed and set for a hearing before the Court on November 3, 2016. The Company believes that it has meritorious defenses against this action and intends to continue to defend itself vigorously against the allegations of Mr. Welgus.

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

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

NOTE 10. RELATED PARTY TRANSACTIONS

The Company enters into sales and purchases agreements with various companies that have a relationship with the Company's executive officers or members of the Company's board of directors. The relationships are typically an equity investment by the executive officer or board member in the customer / vendor company or the Company's executive officer or board member is a member of the customer / vendor company's board of directors. The Company has received $5.7 million and $3.3 million in total revenues from such related parties during the nine months ended September 30, 2016 and 2015, respectively.

The Company has entered into various software license agreements with a software service provider who has a board member in common with TriNet. The Company paid the software service provider $6.1 million and $4.1 million during the nine months ended September 30, 2016 and 2015, for services it received, respectively.

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 report and in our Annual Report on Form 10-K for the year ended December 31, 2015 previously filed with the Securities and Exchange Commission.

When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that characterize our business. In particular, we also encourage you to review the risks and uncertainties described in the section titled “Risk Factors” included in our Annual Report on Form 10-K. Unless the context suggests otherwise, references to “TriNet,” the “Company,” “we,” “us” and “our” refer to TriNet Group, Inc. and, where appropriate, its subsidiarie

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 our risk factors disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2015. 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 comprehensive HR solutions for small to midsize businesses under a co-employment model. Our HR solutions are designed to manage an increasingly complex set of HR regulations, costs, risks, and responsibilities for our clients, allowing them to focus on operating and growing their core businesses. Our bundled HR solutions include multi-state payroll processing and tax administration, employee benefits programs (including health insurance and retirement plans), workers compensation insurance and claims management, federal, state and local labor, employment and benefit law