TRINET GROUP INC
Form 10-Q
November 06, 2014

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, 2014

¨ 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 October 31, 2014, the registrant had 69,596,136 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)

	September 30, 2014	December 31, 2013
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 97,952	$ 94,356
Restricted cash	14,538	15,267
Prepaid income taxes	32,973	3,331
Deferred income taxes	68	68
Prepaid expenses	9,636	7,849
Deferred loan costs and other current assets	5,273	5,238
Worksite employee related assets	697,047	772,437
Total current assets	857,487	898,546
Workers compensation receivable	38,142	25,381
Restricted cash and investments	62,454	36,968
Property and equipment, net	32,353	25,690
Goodwill	288,857	288,857
Other intangible assets, net	94,461	134,020
Deferred income taxes	7,621	1,000
Deferred loan costs and other assets	11,930	24,276
Total assets	$ 1,393,305	$ 1,434,738
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 11,422	$ 7,315
Accrued corporate wages	31,538	26,264
Deferred income taxes	73,121	16,535
Current portion of notes payable and borrowings under capital leases	20,694	6,669
Other current liabilities	12,736	9,078
Worksite employee related liabilities	690,703	767,624
Total current liabilities	840,214	833,485
Notes payable and borrowings under capital leases, less current portion	529,542	812,208
Workers compensation liabilities	67,273	45,309
Deferred income taxes	—	8,888
Other liabilities	5,189	5,210
Total liabilities	1,442,218	1,705,100
Commitments and contingencies (Note 11)		
Series G convertible preferred stock, $.0001 per share stated value	—	59,059

(aggregate liquidation preference of $59,306); no shares authorized, issued and outstanding		
at September 30, 2014; 5,391,441 shares authorized, issued and outstanding at December 31, 2013		
Series H convertible preferred stock, $.0001 per share stated value		
(aggregate liquidation preference of $60,000); no shares authorized, issued and outstanding		
at September 30, 2014; 4,124,986 shares authorized, issued and outstanding at December 31, 2013	—	63,819
Stockholders' deficit:		
Preferred stock, $.000025 per share stated value; 20,000,000 shares authorized;		
no shares issued and outstanding at September 30, 2014 and December 31, 2013	—	—
Common stock, $.000025 per share stated value; 750,000,000 shares authorized;		
69,383,359 and 15,259,540 shares issued and outstanding at September 30, 2014		
and December 31, 2013	411,449	74,160
Accumulated deficit	(460,120)	(467,209)
Accumulated other comprehensive loss	(242)	(191)
Total stockholders' deficit	(48,913)	(393,240)
Total liabilities and stockholders' deficit	$ 1,393,305	$ 1,434,738

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Professional service revenues	$ 86,864	$ 75,641	$ 251,999	$ 195,952
Insurance service revenues	469,087	372,476	1,337,870	966,667
Total revenues	555,951	448,117	1,589,869	1,162,619
Costs and operating expenses:				
Insurance costs	428,184	343,464	1,209,536	866,593
Cost of providing services (exclusive of depreciation and amortization of intangible assets)	32,575	27,556	100,252	74,042
Sales and marketing	37,396	31,367	104,225	79,387
General and administrative	13,766	14,593	40,785	39,821
Systems development and programming costs	6,776	5,052	19,235	15,140
Amortization of intangible assets	12,743	15,442	39,559	35,926
Depreciation	3,265	3,356	9,725	8,908
Total costs and operating expenses	534,705	440,830	1,523,317	1,119,817
Operating income	21,246	7,287	66,552	42,802
Other income (expense):				
Interest expense and bank fees	(18,462)	(19,902)	(49,174)	(32,091)
Other, net	179	75	257	309
Income (loss) before provision for (benefit from) income taxes	2,963	(12,540)	17,635	11,020
Provision for (benefit from) income taxes	2,238	(4,800)	9,149	3,880
Net income (loss)	$ 725	$ (7,740)	$ 8,486	$ 7,140
Net income (loss) per share:				
Basic	$ 0.01	$ (0.60)	$ 0.13	$ 0.14
Diluted	$ 0.01	$ (0.60)	$ 0.13	$ 0.13
Weighted average shares:				
Basic	69,134,908	12,835,295	51,654,608	11,501,581
Diluted	72,954,352	12,835,295	55,003,651	15,196,398

See accompanying notes.

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TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ 725	$ (7,740)	$ 8,486	$ 7,140
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on investments	(10)	45	10	(9)
Unrealized gains on interest rate cap	–	45	–	66
Foreign currency translation adjustments	(63)	19	(62)	(20)
Total other comprehensive income (loss), net of tax	(73)	109	(52)	37
Comprehensive income (loss)	$ 652	$ (7,631)	$ 8,434	$ 7,177

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2014	2013
Operating activities		
Net income	$ 8,486	$ 7,140
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,754	56,313
Deferred income taxes	27,180	(9,534)
Stock-based compensation	8,251	4,360
Excess tax benefit from equity incentive plan activity	–	(14,281)
Accretion of workers compensation and leases fair value adjustment	(969)	(1,244)
Changes in operating assets and liabilities:		
Restricted cash	(7,968)	(6,522)
Prepaid expenses and other current assets	(7,899)	(8,049)
Workers compensation receivables	(11,775)	3,624
Other assets	8,166	3,995
Accounts payable	4,826	1,598
Income tax payable/receivable	(29,057)	12,314
Other current liabilities	11,321	7,447
Other liabilities	22,196	1,968
Worksite employee related assets	75,390	(41,062)
Worksite employee related liabilities	(76,921)	44,013
Net cash provided by operating activities	98,981	62,080
Investing activities		
Acquisition of businesses	–	(193,727)
Proceeds from sale and maturity of debt securities	–	500
Purchase of debt securities	(16,789)	(7,253)
Purchase of property and equipment	(17,082)	(6,314)
Net cash used in investing activities	(33,871)	(206,794)
Financing activities		
Proceeds from issuance of common stock, net of issuance costs	218,572	–
Proceeds from issuance of common stock on exercised options	1,146	6,889
Excess tax benefit from equity incentive plan activity	–	14,281
Borrowings under notes payable	–	970,000
Repayment of notes payable	(268,425)	(450,104)
Payment of debt issuance costs	(11,060)	(24,611)
Payments of special dividend	–	(310,922)
Repayments under capital leases	(263)	(620)
Repurchase of common stock	(1,422)	(11,767)
Net cash provided by (used in) financing activities	(61,452)	193,146
Effect of exchange rate changes on cash and cash equivalents	(62)	(20)
Net increase in cash and cash equivalents	3,596	48,412

Cash and cash equivalents at beginning of period	94,356	63,749
Cash and cash equivalents at end of period	$ 97,952	$ 112,161
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 25,662	$ 18,557
Cash paid for income taxes, net of refunds	10,969	719
Supplemental schedule of noncash investing and financing activities		
Payable for purchase of property and equipment	826	378

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.

Initial Public Offering

In March 2014, the Company completed its initial public offering (IPO) in which the Company issued and sold 15,000,000 shares of common stock at a public offering price of $16.00 per share. In addition, another 2,250,000 shares were sold by certain selling stockholders pursuant to the underwriters' option to purchase additional shares. The Company received net proceeds of approximately $217.6 million, after deducting underwriting discounts and commissions of $16.8 million and offering expenses of $5.6 million. The Company did not receive any proceeds from the sale by the selling stockholders. Upon the closing of the IPO, all shares of the Company's then-outstanding preferred stock were converted into an aggregate of 38,065,708 shares of common stock.

Segment Information

The Company operates in one reportable segment in accordance with ASC 280. All of the Company's service revenues are generated from external customers. Less than 1% of revenues are 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 prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933 on March 27, 2014, and the Company's prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933 on September 12, 2014. There have been no changes to the Company's significant accounting policies described in the prospectuses that have had a material impact on our consolidated financial statements and related notes. All intercompany accounts and transactions have been eliminated in consolidation.

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

The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation. The results of the nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014.

Seasonality

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

Use of Estimates

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

Recent Accounting Pronouncements

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

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

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

In July 2013, the FASB issued ASU 2013-11—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which requires that an unrecognized tax benefit, or portion of an unrecognized tax benefit, be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If an applicable deferred tax asset is not available or a company does not expect to use the applicable deferred tax asset, the unrecognized tax benefit should be presented as a liability in the financial statements and should not be combined with an unrelated deferred tax asset. ASU 2013-11 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, however retrospective application is permitted. The Company adopted this guidance in 2014. The adoption of ASU 2013-11 did not have a material impact on the Company’s 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, 2014		December 31, 2013	
Worksite employee-related assets:				
Restricted cash	$	39,857	$	19,154
Restricted investment		25,146		2,317
Payroll funds collected		323,923		490,058
Unbilled revenue, net of advance collection of $52,144 and $54,159 at September 30, 2014 and December 31, 2013, respectively		278,393		200,641
Accounts receivable, net of allowance for doubtful accounts of $229 and $865 at September 30, 2014 and December 31, 2013, respectively		6,450		10,450
Prepaid health plan expenses		3,438		7,584
Refundable health plan premiums		2,739		17,601
Refundable workers compensation premiums		10,814		20,834
Prepaid workers compensation expenses		2,543		1,414
Other payroll assets		3,744		2,384
Total worksite employee-related assets	$	697,047	$	772,437
Worksite employee-related liabilities:				
Unbilled wages accrual	$	310,075	$	243,640
Payroll taxes payable		191,165		358,285
Health benefits payable		96,031		67,132
Customer prepayments		37,323		51,902
Workers compensation payable		34,055		23,453
Other payroll deductions		22,054		23,212
Total worksite employee-related liabilities	$	690,703	$	767,624

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 nine months ended September 30, 2014	For the year ended December 31, 2013
Liability for unpaid claims and claims adjustment at beginning of period	$ 58,610	$ 53,900
Plans acquired through business combinations	–	481
Incurred related to:		
Current year	44,567	26,401
Prior years	(4,450)	(3,319)
Total incurred	40,117	23,082
Paid related to:		
Current year	(8,483)	(8,055)
Prior years	(7,364)	(10,798)
Total paid	(15,847)	(18,853)
Liability for unpaid claims and claims adjustment at end of period	82,880	58,610
Other premiums and collateral liabilities	18,448	10,152
Total workers compensation liabilities at end of period	$ 101,328	$ 68,762
Current portion included in worksite employee-related liability	34,055	23,453
Long term portion	$ 67,273	$ 45,309

Under the terms of its agreements with its workers compensation insurance carriers, the Company collects and holds premiums in restricted accounts pending claims payments by the claims administrator. As of September 30, 2014 and December 31, 2013, such restricted amounts of $34.5 million and $21.5 million, respectively, are presented as restricted cash and restricted investment within WSE-related assets in the accompanying consolidated balance sheets. In addition, the Company invests premium collateral in excess of short term claim obligations in certain longer term securities. While it is the intention of the Company to reinvest maturing securities, periodically certain securities will be classified as short term to the extent the Company does not intend to reinvest the proceeds upon maturity. At September 30, 2014 and December 31, 2013, $62.5 million and $37.0 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):

	September 30, 2014	December 31, 2013
Software	$ 48,813	$ 43,513
Office equipment, including data processing equipment	17,833	14,667
Leasehold improvements	7,030	6,836
Furniture, fixtures, and equipment	5,758	3,998
Projects in progress	9,942	5,106
	89,376	74,120
Accumulated depreciation	(57,023)	(48,430)
Property and equipment, net	$ 32,353	$ 25,690

Software and furniture, fixtures, and equipment include amounts for assets under capital leases of $1.5 million and $1.4 million at September 30, 2014 and December 31, 2013, respectively. Accumulated depreciation of these assets was $0.8 million and $0.5 million at September 30, 2014 and December 31, 2013, 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 $4.0 million and $3.8 million for the nine months ended September 30, 2014 and 2013, respectively. Accumulated depreciation for these assets was $28.5 million and $25.3 million at September 30, 2014 and December 31, 2013, respectively. The Company periodically assesses the likelihood of unsuccessful completion of projects in progress, as well as monitoring events or changes in circumstances, which might suggest that impairment has occurred and recoverability should be evaluated. An impairment loss is recognized if the carrying amount of the asset is not recoverable and exceeds the future net cash flows expected to be generated by the asset. There was $0.1 million and $0.4 million losses recognized on internally developed software for the nine months ended September 30, 2014 and 2013, respectively.

NOTE 5. MARKETABLE SECURITIES AND FAIR VALUE MEASUREMENTS

The Company's noncurrent restricted cash and investments include $30.2 million of available-for-sale marketable securities and $32.2 million of cash collateral at September 30, 2014. The Company's restricted investments within WSE-related assets include $22.8 million of available-for-sale marketable securities and $2.3 million of certificates of deposit as of September 30, 2014. The available-for-sale marketable securities as of September 30, 2014 and December 31, 2013 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2014				
U.S. treasuries	$ 52,500	$ 49	$ (13)	$ 52,536
Mutual funds	500	7	–	507
Total investments	$ 53,000	$ 56	$ (13)	$ 53,043
December 31, 2013:				
U.S. treasuries	$ 35,900	$ 38	$ (20)	$ 35,918
Mutual funds	500	8	–	508
Total investments	$ 36,400	$ 46	$ (20)	$ 36,426

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There were no realized gains or losses for the three and nine months ended September 30, 2014 and 2013. As of September 30, 2014 and December 31, 2013, the contractual maturities of the U.S. treasuries were two to three years.

As of September 30, 2014, certain of the Company's U.S. treasuries were in unrealized loss position principally due to changes in interest rates and credit spreads. No U.S. treasuries were in an unrealized loss position for more than 12 months as of either September 30, 2014 or December 31, 2013. 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 39% of the total fair value of all securities available for sale and their unrealized loss was $0.01 million as of September 30, 2014. As the Company has the ability to hold debt securities until maturity, or for the foreseeable future as classified as available for sale, no decline was deemed to be other-than-temporary.

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

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

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

This hierarchy requires the Company to use observable market data when available and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its financial assets at fair value.

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

	Total Fair Value	Level I	Level II	Level III
September 30, 2014				
Certificate of deposit	$2,317	$2,317	$ –	$ –
U.S. treasuries	52,536	52,536	–	–
Mutual funds	507	507	–	–
Interest rate cap	4	–	4	–
Total	$55,364	$55,360	$ 4	$ –
December 31, 2013:				
Certificates of deposit	$2,858	$2,858	$ –	$ –
U.S. treasuries	35,918	35,918	–	–
Mutual funds	508	508	–	–
Interest rate cap	47	–	47	–
Total	$39,331	$39,284	$ 47	$ –

There were no transfers between Level I and Level II assets for the three months ended September 30, 2014 or the year ended December 31, 2013.

As of September 30, 2014 and December 31, 2013, certificate of deposit consisted of certificates of deposit held by domestic financial institutions, which are presented as restricted investments within WSE-related assets in the accompanying consolidated balance sheets.

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

At September 30, 2014 and December 31, 2013, the carrying value of our notes payable of $550.0 million and $818.4 million, respectively, approximated fair value. The estimate fair values of our notes payable are considered a Level II valuation in the hierarchy for fair value measurement and are based on a cash flow model discounted at market interest rates that considers the underlying risks of unsecured debt.

NOTE 6. NOTES PAYABLE AND BORROWINGS UNDER CAPITAL LEASES

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

	September 30, 2014	December 31, 2013
Notes payable under credit facility	$ 550,000	$ 818,425
Capital leases	236	452
Less current portion	(20,694)	(6,669)
	$ 529,542	$ 812,208

In August 2013, the Company, as guarantor, its subsidiary TriNet HR Corporation, as borrower, and certain of its other subsidiaries as subsidiary guarantors entered into two senior secured credit facilities:

- a $705.0 million first lien credit facility with JPMorgan Chase Bank, N.A., as administrative agent which provided a $75.0 million revolving credit facility, a $175.0 million tranche B-1 term loan and a $455.0 million tranche B-2 term loan; and
- a $190.0 million second lien credit facility with Wilmington Trust, National Association, as administrative agent.

In March 2014, the proceeds from the 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 tranche B-1 term loan. Additionally, the remaining balance of the loan fees associated with the second lien credit facility and a portion of the loan fees associated with the first lien credit facility were fully amortized in March 2014 for a charge of $5.0 million. In May 2014, the Company repaid $25.0 million of the first lien tranche B-1 term loan. As a result, a portion of the loan fees associated with the first lien credit facility was fully amortized in May 2014 for a charge of $0.5 million.

On July 9, 2014, the Company amended and restated its first lien credit facility pursuant to an amended and restated first lien credit agreement (“the Amended and Restated Credit Agreement”). The Amended and Restated Credit Agreement provides for: (i) $375 million principal amount of “tranche A term loans,” (ii) $200 million principal amount of “tranche B term loans,” and (iii) a revolving credit facility of $75 million. The proceeds of the tranche A term loans were used to refinance in part the tranche B-2 term loans outstanding under the original first lien credit facility. The proceeds of the tranche B term loans were used to (i) refinance the remaining tranche B-2 term loans outstanding under the original first lien credit facility, (ii) refinance other amounts outstanding under the original first lien credit facility and (iii) pay fees and expenses related thereto. The revolving credit facility replaced the revolving credit facility under the original first lien credit facility.

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

The $75.0 million revolving credit facility includes capacity for a $30.0 million letter of credit facility and a $10.0 million swingline facility. The total unused portion of the revolving credit facility was $59.5 million as of September 30, 2014. 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 August 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 August 2014 for a charge of $0.6 million.

The Amended and Restated Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness, and dividends and other distributions. The Amended and Restated Credit Agreement also contains financial covenants that require the Company to maintain a minimum consolidated interest coverage ratio of at least 3.50 to 1.00, beginning with the fiscal quarter ending September 30, 2014, and a maximum total leverage ratio, currently at 5.00 to 1.00. The Company was in compliance with the restrictive covenants under the credit facilities at September 30, 2014. 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. CONVERTIBLE PREFERRED STOCK

On June 7, 2005, the Company issued 5,391,441 shares of Series G convertible preferred stock (Series G) at $11.00 per share for an aggregate cash purchase price of $59.3 million. The Company recorded the issuance of Series G at $59.1 million, net of issuance costs of $0.2 million. On June 1, 2009, the Company issued 4,124,986 shares of Series H convertible preferred stock (Series H) at $16.69 per share for an aggregate cash purchase price of $68.8 million. The Company recorded the issuance of Series H at $63.8 million, net of issuance costs of $5.0 million. Upon the issuance of Series H, certain terms related to Series G were amended. In March 2014, upon completion of the Company's IPO, all of the outstanding shares of Series H and Series G were converted into 38,065,708 shares of common stock.

NOTE 8: STOCKHOLDERS' EQUITY

Equity-Based Incentive Plans

In 2000, the Company established the 2000 Equity Incentive Plan (the 2000 Plan), which provided for granting incentive stock options, nonstatutory stock options, bonus awards and restricted stock awards to eligible employees, directors, and consultants of the Company. In December 2009, the Board of Directors approved the 2009 Equity Incentive Plan (the 2009 Plan) as the successor to and continuation of the 2000 Plan. As of the 2009 Plan effective date, remaining shares available for issuance under the 2000 Plan were cancelled and became available for issuance under the 2009 Plan. No additional stock awards will be granted under the 2000 Plan. The 2009 Plan provides for the grant of the following awards to eligible employees, directors, and consultants: incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards, and other stock awards. Incentive stock options may only be granted to employees. Nonemployee directors are eligible to receive nonstatutory stock options automatically at designated intervals over their period of continuous service on the Board. In February 2014, the Board approved an amendment to the 2009 Plan authorizing an additional 3,000,000 shares available for grant. The amended 2009 Plan also 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.

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. Options issued to members of the Board of Directors are issued with varying vesting schedules. Incentive stock options granted at 110% of the fair market value to stockholders who have greater than 10% ownership have a maximum term of five years.

The Company also has granted restricted stock units to members of the Board of Directors and certain executives. These restricted stock units represent rights to receive shares of the Company's common stock on satisfaction of applicable vesting conditions. The fair value of restricted stock units is equal to the fair value of the Company's common stock on the date of grant. The restricted stock units vest at a rate of 25% at the end of the first year and then pro rata monthly thereafter over the remaining vesting term of three or two years, as applicable.

Activity under the 2000 Plan and the 2009 Plan for the nine months ended September 30, 2014 is summarized as follows:

	Shares Available for Grant
Balance at December 31, 2013	2,004,464
Authorized	3,000,000
Granted	(2,721,000)
Forfeited	400,644
Expired	6,580
Balance at September 30, 2014	2,690,688

The following table summarizes stock option activity under the Company’s equity-based plans for the nine months ended September 30, 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2013	6,281,148	$ 1.74	8.55	$ 53,373
Granted	2,696,000	12.67		
Exercised	(1,043,854)	1.10		
Forfeited	(372,644)	5.02		
Expired	(6,580)	0.50		
Balance at September 30, 2014	7,554,070	$ 5.57	8.40	$ 152,467
Exercisable at September 30, 2014	1,981,686	$ 1.04	7.32	$ 48,960
Vested and expected to vest at September 30, 2014	7,197,880	$ 5.43	8.37	$ 146,231

The weighted-average grant date fair value of stock options granted in each of the three months ended September 30, 2014 and September 30, 2013 was $15.83 and $5.97 per share, respectively. The weighted-average grant date fair value of stock options granted in each of the nine months ended September 30, 2014 and September 30, 2013 was $6.99 and $3.89 per share, respectively. The total fair value of options vested for the three months ended September 30, 2014 and September 30, 2013 was $1.7 million and $0.7 million, respectively. The total fair value of options vested for the nine months ended September 30, 2014 and September 30, 2013 was $6.2 million and $3.1 million, respectively.

The total intrinsic value of options exercised for the three months ended September 30, 2014 and September 30, 2013 was $6.8 million and $41.1 million, respectively. The total intrinsic value of options exercised for the nine months ended September 30, 2014 and September 30, 2013 was $16.8 million and $48.3 million, respectively. Cash received from options exercised during the three months ended September 30, 2014 and September 30, 2013 was $0.5 million and $5.6 million, respectively. Cash received from options exercised during the nine months ended September 30, 2014 and September 30, 2013 was $1.1 million and $6.9 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, 2014, unrecognized compensation expense, net of forfeitures, associated with nonvested options outstanding was $22.9 million and is expected to be recognized over a weighted-average period of 2.98 years.

The following table summarizes restricted stock unit activity under the Company’s equity-based plans for the nine months ended September 30, 2014:

	Number of Units		Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2013	40,000		$ 13.21
Granted	25,000		$ 28.59
Vested	(3,500	)	$ 13.21
Forfeited	(28,000		