

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from _____ to _____

Commission File Number: 001-36373



TRINET GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

One Park Place, Suite 600

Dublin, CA

(Address of principal executive offices)

95-3359658

(I.R.S. Employer
Identification No.)

94568

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock par value \$0.000025 per share	TNET	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☐

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

The number of shares of Registrant's Common Stock outstanding as of October 19, 2020 was 66,633,696.

TRINET GROUP, INC.
Form 10-Q - Quarterly Report
For the Quarterly Period Ended September 30, 2020

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Glossary of Acronyms and Abbreviations

Acronyms and abbreviations are used throughout this report, particularly in Part I, Item 1. Unaudited Condensed Consolidated Financial Statements and Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

AFS	Available-for-sale
ASC	Accounting standards codification
ASU	Accounting standards update
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CEO	Chief Executive Officer
CFO	Interim Chief Financial Officer
COPS	Cost of providing services
COVID-19	Novel coronavirus
D&A	Depreciation and Amortization
EBITDA	Earnings before interest expense, taxes, depreciation and amortization of intangible assets
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act of 1974
ETR	Effective tax rate
FASB	Financial Accounting Standards Board
FFCRA	Families First Coronavirus Relief Act
G&A	General and administrative
GAAP	Generally Accepted Accounting Principles in the United States
HR	Human Resources
IRS	Internal Revenue Service
ISR	Insurance service revenues
LIBOR	London Inter-bank Offered Rate
MCT	Medical cost trend
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
NIM	Net Insurance Margin
NISR	Net Insurance Service Revenues
NSR	Net service revenues
OE	Operating expenses
PFC	Payroll funds collected
PPP	Paycheck protection loan program
PSR	Professional service revenues
Recovery Credit	Program to provide clients with one-time reductions against fees for future services
Reg FD	Regulation Fair Disclosure
RSA	Restricted Stock Award
RSU	Restricted Stock Unit
SBC	Stock Based Compensation
S&M	Sales and marketing
SD&P	Systems development and programming
SEC	Securities and Exchange Commission
SMB	Small to midsize business
U.S.	United States
WSE	Worksite employee

Cautionary Note Regarding Forward-Looking Statements and Other Financial Information

For purposes of this Quarterly Report on Form 10-Q (Form 10-Q), the terms “TriNet,” “the Company,” “we,” “us” and “our” refer to TriNet Group, Inc., and its subsidiaries. This Form 10-Q contains statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or otherwise contain forward-looking statements within the meaning of Section 21 of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are often identified by the use of words such as, but not limited to, “ability,” “anticipate,” “believe,” “can,” “continue,” “could,” “design,” “estimate,” “expect,” “forecast,” “hope,” “impact,” “intend,” “may,” “outlook,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “strategy,” “target,” “value,” “will,” “would” and similar expressions or variations intended to identify forward-looking statements. Examples of forward-looking statements include, among others, TriNet’s expectations regarding: the impact of the COVID-19 pandemic; the impact of our Recovery Credit program and its suitability for generating client loyalty and retention; our ability to modify or develop product and service offerings to assist clients affected by COVID-19; the impact of our vertical approach; our ability to leverage our scale and industry HR experience to deliver vertical product and service offerings; the growth of our customer base; planned improvements to our technology platform; our ability to drive operating efficiencies and improve the customer experience; the impact of our customer service initiatives; the volume and severity of insurance claims and the impact of COVID-19 on claims; metrics that may be indicators of future financial performance; the relative value of our benefit offerings versus those SMBs can independently obtain; the principal competitive drivers in our market; our plans to retain clients and manage client attrition; our investment strategy and its impact on our ability to generate future interest income, net income, and Adjusted EBITDA; seasonal trends and their impact on our business and the impact of COVID-19 on those trends; fluctuations in the period-to-period timing of when we incur certain operating expenses; the estimates and assumptions we use to prepare our financial statements; and other expectations, outlooks and forecasts on our future business, operational and financial performance.

Important factors that could cause actual results, level of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements are discussed throughout our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 13, 2020 (our 2019 Form 10-K), including those appearing under the heading “Risk Factors” in Item 1A, and under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of our 2019 Form 10-K, the risks appearing under the heading “Risk Factors” in Part II, Item 1A of this Form 10-Q and in Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 filed with the SEC on April 28, 2020 and July 27, 2020, respectively (collectively our 2020 Form 10-Qs), as well as in our other periodic filings with the SEC, and including risk factors associated with: the impact of the COVID-19 pandemic on our business and the business of our clients; our ability to mitigate the business risks we face as a co-employer; our ability to manage unexpected changes in workers’ compensation and health insurance claims and costs by worksite employees; the effects of volatility in the financial and economic environment on the businesses that make up our client base; the impact of the concentration of our clients in certain geographies and industries; the impact of failures or limitations in the business systems we rely upon; adverse changes in our insurance coverage or our relationships with key insurance carriers; our ability to manage our client attrition; our ability to improve our technology to satisfy regulatory requirements and meet the expectations of our clients; our ability to effectively integrate businesses we have acquired or may acquire in the future; our ability to effectively manage and improve our operational processes; our ability to attract and retain qualified personnel; the effects of increased competition and our ability to compete effectively; the impact on our business of cyber-attacks and security breaches; our ability to secure our information technology infrastructure and our confidential, sensitive and personal information from cyber-attacks and security breaches; our ability to comply with constantly evolving data privacy and security laws; our ability to manage changes in, uncertainty regarding, or adverse application of the complex laws and regulations that govern our business; changing laws and regulations governing health insurance and employee benefits; our ability to be recognized as an employer of worksite employees under federal and state regulations; changes in the laws and regulations that govern what it means to be an employer, employee or independent contractor; our ability to comply with the laws and regulations that govern PEOs and other similar industries; the outcome of existing and future legal and tax proceedings; fluctuation in our results of operation and stock price due to factors outside of our control, such as the volume and severity of our workers’ compensation and health insurance claims and the amount and timing of our insurance costs, operating expenses and capital expenditure requirements; our ability to comply with the restrictions of our credit facility and meet our debt obligations; and the impact of concentrated ownership in our stock. Any of these factors could cause our actual results to differ materially from our anticipated results.

Forward-looking statements are not guarantees of future performance, but are based on management's expectations as of the date of this Form 10-Q 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 our current expectations and any past results, performance or achievements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The information provided in this Form 10-Q is based upon the facts and circumstances known as of the date of this Form 10-Q, and any forward-looking statements made by us in this Form 10-Q speak only as of the date of this Form 10-Q. We undertake no obligation to revise or update any of the information provided in this Form 10-Q, except as required by law.

The MD&A of this Form 10-Q includes references to our performance measures presented in conformity with GAAP and other non-GAAP financial measures that we use to manage our business, to make planning decisions, to allocate resources and to use as performance measures in our executive compensation plans. Refer to the Non-GAAP Financial Measures in our Key Financial and Operating Metrics section within our MD&A for definitions and reconciliations from GAAP measures.

Website Disclosures

We use our website (www.trinet.com) to announce material non-public information to the public and to comply with our disclosure obligations under Regulation Fair Disclosure (Reg FD). We also use our website to communicate with the public about our Company, our services, and other issues. Our SEC filings, press releases and recent public conference calls and webcasts can also be found on our website. The information we post on our website could be deemed to be material information under Reg FD. We encourage investors and others interested in our Company to review the information we post on our website. Information contained in or accessible through our website is not a part of this report.

Risk Factors

Other than the inclusion of the additional risk factor below, and those previously disclosed under the heading “Risk Factors” in our 2020 Form 10-Qs; there have been no material changes in our risk factors disclosed in Part 1, Item 1A. of our 2019 Form 10-K.

The unprecedented economic, health and business disruption caused by the COVID-19 pandemic is impacting our business and could result in a material adverse effect on our business, results of operation and/or financial condition.

The outbreak of the novel coronavirus (COVID-19) pandemic and the measures being taken at every level of government to prevent its spread have resulted in an economic slowdown and an unprecedented disruption to our business and the businesses of our small and mid-size business clients. We cannot predict or control all of these disruptions, and any such disruptions may have a material adverse effect on our financial condition and results of operations.

Actual and potential impact on clients and prospects

The change in the economic environment has had, and will continue to have, an adverse economic impact on our small and mid-size business clients and potential clients. We have seen, and continue to see, affected businesses freeze headcount, furlough and terminate employees, and partially or completely shut down business operations. Impacted businesses may also face liquidity issues, reduced budgets, or an inability to pay for our services or the same level of our services. In the nine months ended September 30, 2020, our new sales growth declined and we experienced higher WSE attrition than in prior periods. We created our Recovery Credit program during the second quarter of 2020 and we expect that the current economic environment may make it difficult for us to achieve WSE and service fee increases in future periods. We currently expect that the rate of growth of total revenues, professional service revenues and insurance service revenues will decrease in future periods as a result, and that our operating expenses as a percentage of revenue will increase. Any of these issues have the potential to result in a material adverse effect on our revenues and margins, our financial condition and results of operations, and/or on our ability to attract and retain customers. See the risk factor titled “Our SMB clients are particularly affected by volatility in the financial and economic environment, which could harm our business” in our 2019 Form 10-K for more details.

Stay-at-home, quarantine and other similar orders have been widely issued across the United States, including in all or nearly all of the locations where our clients and potential clients are located. Although many orders have been lifted or modified, new orders have been issued or may in the future be issued in any region, even if orders were previously lifted in that region. We cannot predict the extent or duration of such measures in any given location and the existence of such orders in locations where our clients and potential clients are located could have a further negative impact on the businesses of our clients and potential clients and result in a material adverse effect on our business.

Actual and potential impact on insurance costs

The spread of COVID-19 has changed how and when our WSEs incur group health insurance expenses. As a result, we have experienced and expect to continue to experience higher than normal volatility and variability in the amounts that we pay for group health insurance expenses incurred by WSEs within our deductible layer under our risk-based health insurance policies. We attribute this to changing trends in the volume and severity of medical and pharmaceutical claims, including COVID-19 testing and treatment costs. This variability arises from changes to the timing and components of medical cost trend (MCT), defined as changes in participant use of services, including the introduction of new treatment options, changes in treatment guidelines and mandates, and changes in the mix, unit cost and timing of services provided to plan participants. As a result of the impact of COVID-19, future health claims costs are less predictable than previously experienced. Actual claims patterns and cost trends during the pandemic may differ significantly from our historical experience. As a result, we cannot predict how the COVID-19 pandemic will affect the volume and severity of insurance claims and our MCT. Because we assume the risk of variability in future health claims costs for our enrollees under our risk-based health insurance policies, this unpredictability could result in higher than expected insurance costs, which could have a material adverse effect on our business.

In addition, COVID-19 stay-at-home orders and social distancing practices have caused, and we expect will continue to cause, fluctuations in the use of medical services as some enrollees defer or cancel elective procedures and outpatient medical, dental and vision services. Reduced use of medical services primarily in the second quarter led to decreases in our MCT, resulting in higher than normal net insurance revenue during that period. We cannot predict the rate at which the use of medical services will change in subsequent quarters once COVID-19 social distancing practices are eased, and as provider networks adapt to providing services during the pandemic. For example, the use of medical services may decrease if enrollees do not feel safe regardless of government intervention or positive developments in the pandemic, or the use of medical services may increase or decrease as regional hot spots change, and we cannot predict these outcomes. As we set our insurance service fees for health benefits in advance for a fixed benefit period, if actual MCT exceeds our projections, this would result in lower net insurance revenues, which could have a material adverse effect on our business. For details on how the volume and severity of insurance claims and MCT impact our insurance costs, see Critical Accounting Judgments and Estimates in Part II, Item 7. MD&A and see the risk factor titled "Unexpected changes in workers' compensation and health insurance costs and claims by worksite employees could harm our business" in our 2019 Form 10-K.

In response to COVID-19, many states have adopted standards intended to extend workers' compensation coverage to claims based on a diagnosis of COVID-19. Most states have focused on providing coverage for first responders and frontline healthcare workers. Some have gone further to include other essential workers. In California, employees are presumed to be covered by workers' compensation if certain diagnosed employee thresholds are met and their COVID-19 diagnosis is made within a specified time period. Our insurance costs are affected by our WSE's workers' compensation insurance claims experience, and any law or legal standard that increases the number of covered workers' compensation claims under our insurance policies could have a material adverse effect on our insurance costs and financial condition. See the risk factor titled "Unexpected changes in workers' compensation and health insurance costs and claims by worksite employees could harm our business" in our 2019 Form 10-K for more details.

In addition, as our clients reduce their headcount, we expect to see an increase in employment related litigation against our clients and us. Although we provide employment practices liability insurance (EPLI) coverage for our clients through insurance policies that we obtain from a third-party EPLI carrier, the retention amount under these policies is shared by both the client and TriNet. If our clients experience an increase in employment related litigation, our costs under these EPLI policies may rise, which could have a material adverse effect on our business.

Actual and potential impact of the laws affecting our industry and clients

Every level of government is enacting new laws and programs to help the economy, employers and employees. For example, the FFCRA and the CARES Act were signed into law in March 2020, creating numerous new programs, including a paycheck protection loan program (PPP), mandatory employee leave requirements, payroll tax deferral and tax credit programs and other employment- and employment tax-related incentives. The Paycheck Protection Program Flexibility Act (PPPFA) was signed into law in June 2020, modifying and expanding the original PPP program. Many states have also passed laws to address the impact of COVID-19, and many local governments have enacted ordinances for the same reason. Congress has subsequently discussed several potential amendments to the FFCRA, CARES, PPPFA, as well as proposals for other laws intended to address the impact of COVID-19. New COVID-19 laws, and amendments of existing COVID-19 laws, may be passed at the federal, state and local level at any time. We are spending, and will continue to spend, significant time and resources to comply with new and amended laws and to provide the benefits created by these laws for our clients and WSEs, where applicable. Most of these laws and programs have not been, and we do not anticipate will be, enacted with the PEO industry in mind. As a result, we cannot guarantee we will be able to support any of these laws and programs in a timely and cost effective manner or at all, which could reduce or eliminate the attractiveness of our products and services and/or affect the ability of our clients and WSEs to fully realize the benefits of these laws and programs. In addition, since many of these laws do not specifically address the PEO industry and many regulators are unfamiliar with the PEO industry, we expect to experience unpredictable and inconsistent application, interpretation and enforcement of these laws and regulations, which could have a material adverse effect on our business.

In addition, many of these laws are complex and require interpretation from various federal and state agencies to implement. Government agency interpretations, at any level of government, can increase the unpredictability and inconsistent application, interpretation and enforcement of these laws. For example, implementation of the PPP loan program and the tax credit programs offered under the FFCRA and CARES Act involves substantial input and interpretation from the U.S. Small Businesses Administration (SBA), the U.S. Department of Labor (DOL) and the Internal Revenue Service (IRS), respectively. We have experienced delays in our support for, and have been required to change our approach to implementing, various COVID-19 programs created by these laws in the past due to guidance from the SBA, DOL, IRS and other government agencies, and we expect to experience future

delays and changes. Any government agency interpretation may delay, reduce or eliminate our ability to support any of these COVID-19 assistance programs, which could have a material adverse effect on our business.

See the risk factor titled “Our business is subject to numerous complex laws, and changes in, uncertainty regarding, or adverse application of these laws could negatively affect our business” in our 2019 Form 10-K for more details.

Actual and potential impact on human resources and cyber security

In response to local laws and guidance intended to reduce the spread of COVID-19, in mid-March we closed our offices across the country and implemented remote working. Remote work increases our risk of experiencing a material cyber-attack or other security-related incident. There is also an increased risk that our colleagues and WSEs will experience COVID-19 related scams, such as malware and phishing scams. See the risk factor titled “Cyber-attacks or other security-related incidents could result in reduced revenue, increased costs, liability claims, regulatory penalties, and damage to our reputation” in our 2019 Form 10-K for more details. In addition, responding to the COVID-19 pandemic has diverted, and will continue to divert, the time and attention of our management and service teams. Certain of our employees and their immediate families have been, and others will likely become, ill as a result of COVID-19, or will be impacted by COVID-19 protection measures such as school closures, which may affect our service levels. As a result, our ability to provide products and services in the same way and in the same timeframe that our clients have come to expect may be negatively impacted.

Actual and potential impact of the risks described above

Any of the risks above could have a material adverse effect on our business, results of operations or financial condition. However, the extent to which such COVID-19 related risks will impact our business remains uncertain and will depend on a variety of factors that are changing on a day-to-day basis and that we may not be able to accurately predict, such as the duration and scope of the pandemic, the disruption of the national and global economy caused by the pandemic, the duration of the economic downturn, the laws, programs and actions that governments will enact or take in response to the pandemic, the extent to which our clients' businesses contract or fail during the pandemic, the extent to which new laws intended to help small and mid-size businesses can be supported by the PEO industry, the extent to which our own operations are impacted by office closures, remote work and/or infections, and how quickly and to what extent normal economic and operating conditions can resume. Any of these factors could exacerbate the risks and uncertainties identified above or that are set forth in our 2019 Form 10-K, and result in a material adverse effect on our business, financial condition and results of operations.

Our newly created Recovery Credit program could fail to achieve the business goals for which it was designed, which could result in a material adverse effect on our business, results of operation and/or financial condition.

In April 2020, we created our Recovery Credit program to assist in the economic recovery of our existing SMB clients and enhance our ability to retain these clients. Eligible clients receive one-time reductions against fees for future services, accounted for as a discount, to be received over the next two years. The ultimate amount of the Recovery Credit eligible clients will receive is dependent on future net insurance performance and is subject to a limit on the total amount. Our Recovery Credit program is designed to promote client loyalty, incentivize client retention, and to differentiate TriNet from its peers in the PEO industry and in other competing HR services industries.

Although we have designed our Recovery Credit to address these objectives, we cannot predict how the program will ultimately be received by our clients and SMB prospects and we may not achieve the loyalty, retention and product differentiation impact that we expect. For example, our competitors may create similar programs or offer other competing incentives that resonate more with our clients and prospects, reducing some or all of the expected benefits of our Recovery Credit program. As a result of the Recovery Credit, we recognized a reduction in total revenues of \$48 million and \$104 million for the third quarter and nine months ended September 30, 2020, respectively. If our Recovery Credit program fails to generate the business impact for which it was designed, for any reason, our financial performance will be negatively affected, which could result in a material adverse effect on our business, financial condition and results of operations. For more details on our Recovery Credit program, refer to Note 1 in this Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

Overview

TriNet is a leading provider of HR expertise, payroll services, employee benefits and employment risk mitigation services for SMBs. We deliver a comprehensive suite of products and services, that facilitates the administration and management of various HR-related functions for our clients, including compensation and benefits, payroll processing, employee data, health insurance and workers' compensation programs, and other transactional HR needs using our technology platform and HR, benefits and compliance expertise.

We also leverage our scale and industry HR experience to deliver product and service offerings for SMBs in specific industries. We believe our approach, which we call our vertical approach, is a key differentiator for us and creates additional value for our clients by allowing our product and service offerings to address HR needs in different client industries. We offer six industry-tailored vertical products, TriNet Financial Services, TriNet Life Sciences, TriNet Main Street, TriNet Nonprofit, TriNet Professional Services, and TriNet Technology.

Operational Highlights

During the nine months ended September 30, 2020, the outbreak of the novel coronavirus (COVID-19) pandemic, stay-at-home mandates and social distancing practices nationwide resulted in an economic slowdown and an unprecedented disruption to our business and the businesses of our small and mid-size business clients. In response to this pandemic, we have taken following actions:

- launched our COVID-19 Preparedness Center, which provides ongoing and timely webinars, information, resources and offerings to clients and other SMBs to help them navigate the rapidly changing and complicated COVID-19 business landscape,
- facilitated access to alternative health plan options in addition to COBRA,
- enacted new programs in response to the FFCRA and CARES Act to enable new payroll tax deferral and tax credit programs and other employment and non-employment tax-related incentives for our clients,
- helped our clients navigate the various small business relief loan programs through informational webinars and PPP loan application support initiatives,
- hosted the first annual TriNet PeopleForce, our virtual customer and prospect conference, where we provided real insights, thought leadership and recommendations for the challenges they face, and
- implemented and extended our remote working and office closures around the country for non-essential activities.

We will continue to monitor and evaluate the COVID-19 pandemic and will work to respond appropriately to the impact of COVID-19 on our business and our clients' businesses.

In addition, during the nine months ended September 30, 2020:

- we continued to grow our revenues, although the slower rate of growth we experienced in the second quarter continued,
- experienced lower utilization of health services primarily in the second quarter,
- created our Recovery Credit program in the second quarter to assist our eligible clients, resulting in a reduction in revenue recognized,
- completed the acquisition of Little Bird HR, Inc., expanding our footprint in our non-profit vertical, and
- launched the next phase of our branding campaign - our Humanity Campaign.

Performance Highlights

These operational achievements drove the financial performance noted below in the third quarter and nine months ended September 30, 2020 when compared to the same periods of 2019:

Q3 2020

\$975M

Total revenues

1 % increase

\$45M

Operating income

(34) % decrease

\$216M

Net Service Revenue *

(2) % decrease

\$33M

Net income

(40) % decrease

\$0.48

Diluted EPS

(38) % decrease

\$39M

Adjusted Net income *

(33) % decrease

* Non-GAAP measure as defined in the section below.

Our results for WSEs, including furloughed WSEs, in the third quarter of 2020 when compared to the same period of 2019 were:

317,737

Average WSEs

(4) % decrease

320,604

Total WSEs

(3) % decrease

During the third quarter of 2020, our total revenues grew by 1% primarily due to the change in our mix of WSEs and rate increases, partially offset by lower average WSEs and the Recovery Credit recognized. In the third quarter of 2020, we recognized a further \$48 million reduction in total revenues for the Recovery Credit, allocated proportionally to PSR and ISR. The Recovery Credit is a program designed to assist the economic recovery of our existing SMB clients, by providing one-time reductions against fees for future services, starting in the fourth quarter of 2020.

The Recovery Credit and higher year-over-year operating expenses, combined with a more typical level of medical services utilization, resulted in a contraction of NSR, net income, and adjusted net income by (2)%, (40)% and (33)%, respectively. The relative increase in operating expenses was due to the non-recurring reduction in variable incentive compensation recognized in the third quarter of 2019 reflecting prior year financial performance.

YTD 2020

\$3.0B

Total revenues

5 % increase

\$338M

Operating income

65 % increase

\$834M

Net Service Revenue *

19 % increase

\$250M

Net income

52 % increase

\$3.66

Diluted EPS

58 % increase

\$274M

Adjusted Net income *

55 % increase

* Non-GAAP measure as defined in the section below.

Our results for WSEs, including furloughed WSEs, in the nine months ended September 30, 2020 when compared to the same period of 2019 were:

322,595

Average WSEs

1 % increase

Key Financial Metrics

The following key financial metrics should be read in conjunction with our condensed consolidated financial statements and related notes included in this Form 10-Q.

(in millions, except per share and WSE data)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
Income Statement Data:						
Total revenues	\$ 975	\$ 969	1 %	\$ 2,971	\$ 2,838	5 %
Net income	33	55	(40)	250	164	52
Diluted net income per share of common stock	0.48	0.78	(38)	3.66	2.31	58
Non-GAAP measures ⁽¹⁾ :						
Net Service Revenues	216	221	(2)	834	703	19
Net Insurance Service Revenues	90	91	(1)	431	310	39
Adjusted EBITDA	69	93	(26)	413	286	44
Adjusted Net Income	39	58	(33)	274	177	55

(1) Refer to Non-GAAP Financial Measures section below for definitions and reconciliations from GAAP measures.

(in millions)	September 30, 2020	December 31, 2019	% Change
Balance Sheet Data:			
Working capital	\$ 342	\$ 228	50 %
Total assets	2,867	2,748	4
Debt	609	391	56
Total stockholders' equity	620	475	31

(in millions)	Nine Months Ended September 30,		
	2020	2019	% Change
Cash Flow Data:			
Net cash used in operating activities	\$ (40)	\$ (211)	(81) %
Net cash used in investing activities	(151)	(30)	403
Net cash provided by (used in) financing activities	77	(109)	(171)
Non-GAAP measure ⁽¹⁾ :			
Corporate operating cash flows	308	146	111

(1) Refer to Non-GAAP Financial Measures section below for definitions and reconciliations from GAAP measures.

Non-GAAP Financial Measures

In addition to financial measures presented in accordance with GAAP, we monitor other non-GAAP financial measures that we use to manage our business, to make planning decisions, to allocate resources and to use as performance measures in our executive compensation plan. These key financial measures provide an additional view of our operational performance over the long-term and provide information that we use to maintain and grow our business.

The presentation of these non-GAAP financial measures is used to enhance the understanding of certain aspects of our financial performance. It is not meant to be considered in isolation from, superior to, or as a substitute for the directly comparable financial measures prepared in accordance with GAAP.

Non-GAAP Measure	Definition	How We Use The Measure
<i>Net Service Revenues</i>	Sum of professional service revenues and Net Insurance Service Revenues, or total revenues less insurance costs.	- Provides a comparable basis of revenues on a net basis. Professional service revenues are presented net of client payroll costs whereas insurance service revenues are presented gross of insurance costs for financial reporting purposes. - Acts as the basis to allocate resources to different functions and evaluates the effectiveness of our business strategies by each business function. - Provides a measure, among others, used in the determination of incentive compensation for management.
<i>Net Insurance Service Revenues</i>	Insurance service revenues less insurance costs.	- Is a component of Net Service Revenues. - Provides a comparable basis of revenues on a net basis. Professional service revenues are presented net of client payroll costs whereas insurance service revenues are presented gross of insurance costs for financial reporting purposes. Promotes an understanding of our insurance services business by evaluating insurance service revenues net of our WSE related costs which are substantially pass-through for the benefit of our WSEs. Under GAAP, insurance service revenues and costs are recorded gross as we have latitude in establishing the price, service and supplier specifications.
<i>Net Insurance Margin</i>	Net Insurance Margin (NIM) is the ratio of Net Insurance Services Revenues to insurance service revenues.	Provides a comparable basis of Net Insurance Service Revenues relative to insurance service revenues. Promotes an understanding of the margin generated on insurance service revenues.
<i>Adjusted EBITDA</i>	- Net income, excluding the effects of: - income tax provision, - interest expense, - depreciation, - amortization of intangible assets, and - stock based compensation expense.	- Provides period-to-period comparisons on a consistent basis and an understanding as to how our management evaluates the effectiveness of our business strategies by excluding certain non-cash charges such as depreciation and amortization, and stock-based compensation recognized based on the estimated fair values. We believe these charges are either not directly resulting from our core operations or not indicative of our ongoing operations. - Enhances comparisons to prior periods and, accordingly, facilitates the development of future projections and earnings growth prospects. - Provides a measure, among others, used in the determination of incentive compensation for management. - We also sometimes refer to Adjusted EBITDA margin, which is the ratio of Adjusted EBITDA to Net Service Revenue.
<i>Adjusted Net Income</i>	- Net income, excluding the effects of: - effective income tax rate ⁽¹⁾, - stock based compensation, - amortization of intangible assets, - non-cash interest expense ⁽²⁾, and - the income tax effect (at our effective tax rate ⁽¹⁾) of these pre-tax adjustments.	Provides information to our stockholders and board of directors to understand how our management evaluates our business, to monitor and evaluate our operating results, and analyze profitability of our ongoing operations and trends on a consistent basis by excluding certain non-cash charges.

Corporate Operating Cash Flows

- Net cash provided by (used in) operating activities, excluding the effects of:
 - Assets associated with WSEs (accounts receivable, unbilled revenue, prepaid expenses and other current assets) and
 - Liabilities associated with WSEs (client deposits and other client liabilities, accrued wages, payroll tax liabilities and other payroll withholdings, accrued health benefit costs, accrued workers' compensation costs, insurance premiums and other payables, and other current liabilities).
- Provides information that our stockholders and management can use to evaluate our cash flows from operations independent of the current assets and liabilities associated with our WSEs.
- Enhances comparisons to prior periods and, accordingly, used as a liquidity measure to manage liquidity between corporate and WSE related activities, and to help determine and plan our cash flow and capital strategies.

- (1) Non-GAAP effective tax rate is 25.5% and 26% for 2020 and 2019, which excludes the income tax impact from stock based compensation, changes in uncertain tax positions, and nonrecurring benefits or expenses from federal legislative changes.
- (2) Non-cash interest expense represents amortization and write-off of our debt issuance costs.

Reconciliation of GAAP to Non-GAAP Measures

The table below presents a reconciliation of Total revenues to Net Service Revenues:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total revenues	\$ 975	\$ 969	\$ 2,971	\$ 2,838
Less: Insurance costs	759	748	2,137	2,135
Net Service Revenues	\$ 216	\$ 221	\$ 834	\$ 703

The table below presents a reconciliation of Insurance service revenues to Net Insurance Service Revenues:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Insurance service revenues	\$ 849	\$ 839	\$ 2,568	\$ 2,445
Less: Insurance costs	759	748	2,137	2,135
Net Insurance Service Revenues	\$ 90	\$ 91	\$ 431	\$ 310
NIM	11 %	11 %	17 %	13 %

The table below presents a reconciliation of Net income to Adjusted EBITDA:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 33	\$ 55	\$ 250	\$ 164
Provision for income taxes	6	12	81	42
Stock based compensation	11	9	31	29
Interest expense and bank fees	8	6	16	17
Depreciation and amortization of intangible assets	11	11	35	34
Adjusted EBITDA	\$ 69	\$ 93	\$ 413	\$ 286
Adjusted EBITDA Margin	32 %	43 %	49 %	41 %

The table below presents a reconciliation of Net income to Adjusted Net Income:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 33	\$ 55	\$ 250	\$ 164
Effective income tax rate adjustment	(4)	(5)	(3)	(12)
Stock based compensation	11	9	31	29
Amortization of intangible assets	1	1	4	4
Non-cash interest expense	1	1	1	1
Income tax impact of pre-tax adjustments	(3)	(3)	(9)	(9)
Adjusted Net Income	\$ 39	\$ 58	\$ 274	\$ 177

The table below presents a reconciliation of net cash used in operating activities to corporate operating cash flows:

(in millions)	Nine Months Ended September 30,	
	2020	2019
Net cash used in operating activities	\$ (40)	\$ (211)
Change in WSE related other current assets	(103)	(65)
Change in WSE related liabilities	(245)	(292)
Net cash used in operating activities - WSE	\$ (348)	\$ (357)
Net cash provided by operating activities - Corporate	\$ 308	\$ 146

Results of Operations

Operating Metrics

Worksite Employees (WSE)

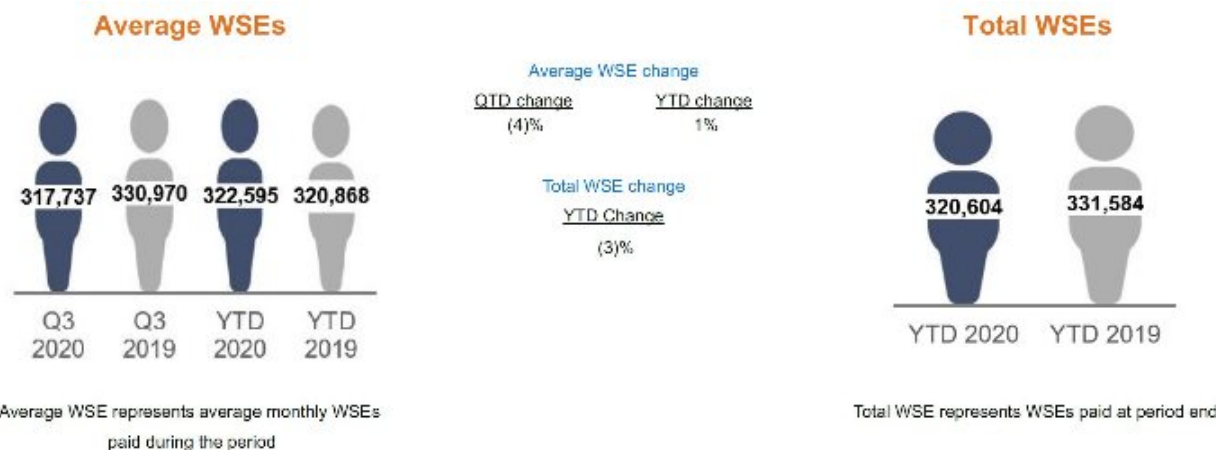
Average WSE growth is a volume measure we use to monitor the performance of our business. The COVID-19 pandemic and the measures taken at every level of government to prevent its spread resulted in an economic slowdown and an unprecedented disruption to the businesses of our clients. Average WSEs decreased 4% in the third quarter of 2020, compared to the same period in 2019, due to the reduction in WSE we previously experienced in the second quarter of 2020 as a result of the impact of COVID-19. This decrease was partially offset by increased hiring by our clients, lower client attrition and our acquisition of Little Bird in the third quarter of 2020. Average WSEs increased 1% in the nine months ended September 30, 2020, compared to the same period in 2019, as a result of new sales and hiring by our installed base clients in the fourth quarter of 2019 and first quarter of 2020, partially offset by WSE attrition as a result of the impact of COVID-19 in the second quarter of 2020.

Total WSEs can generally be used to estimate our beginning WSEs for the next period and, as a result, can be used as an indicator of our potential future success in growing our business and retaining clients. Despite the challenging economic environment, we grew Total WSEs by 2% from June 30, 2020 as a result of the acquisition of Little Bird, favorable retention of customers that value our full service offerings and as our clients returned to hiring, partially offset by slower new sales growth.

Consistent with prior periods, Average and Total WSEs include furloughed WSEs, which include unpaid employees receiving benefits who still receive a paycheck and employees working reduced hours. We experienced an increase in furloughed WSEs, beginning in April and declining thereafter through September, as clients sought to reduce costs while retaining talent during the COVID-19 pandemic. We generally earn lower revenue from furloughed WSEs. For the third quarter of 2020 average and total furloughed WSEs were approximately 5,000 and 4,000, respectively.

Anticipated revenues for future periods can diverge from the revenue expectation derived from Average WSEs or Total WSEs due to pricing differences across our HR solutions and services and the degree to which clients and WSEs elect to participate in our solutions during future periods. We focus on growing our Average WSE and Total WSE counts, while also focusing on pricing strategies, product participation and product differentiation to expand our revenue opportunities. We report the impact of client and WSE participation differences as a change in mix.

In addition to focusing on retaining and growing our WSE base, we continue to review acquisition opportunities that would add appropriately to our scale. We continue to invest in our efforts to enhance our customers' and WSEs' experiences, through operational and process improvements and manage attrition that we believe we will experience as a result of the COVID-19 pandemic.



Total Revenues

Our revenues consist of professional service revenues (PSR) and insurance service revenues (ISR). PSR represents fees charged to clients for processing payroll-related transactions on behalf of our clients, access to our HR expertise, employment and benefit law compliance services, and other HR-related services. ISR consists of insurance-related billings and administrative fees collected from clients and withheld from WSEs for workers' compensation insurance and health benefit insurance plans provided by third-party insurance carriers.

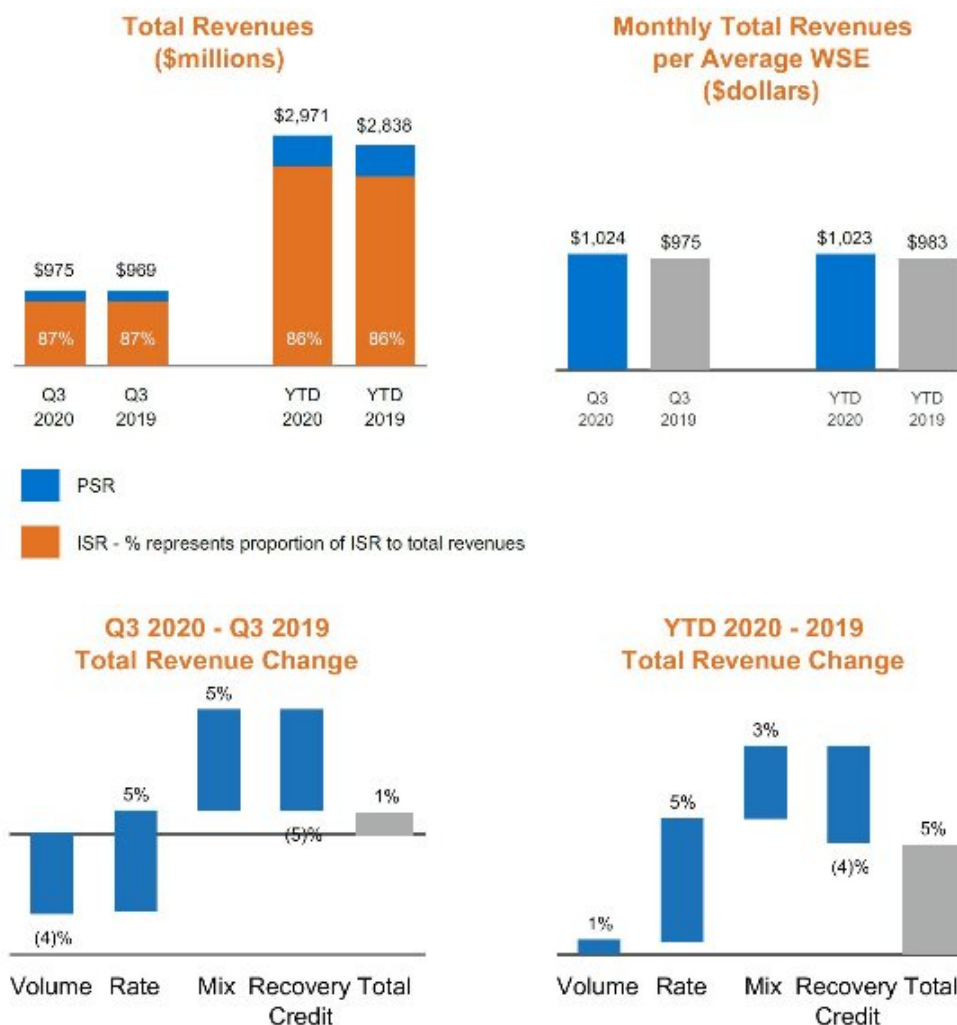
In April 2020, we created our Recovery Credit program to assist in the economic recovery of our existing SMB clients and enhance our ability to retain these clients. Eligible clients will receive one-time reductions against fees for future services, accounted for as a discount, to be received over approximately the next two years. As a result of the Recovery Credit, we recognized a reduction in total revenues of \$48 million and \$104 million for the third quarter and nine months ended September 30, 2020, respectively, allocated proportionally to PSR and ISR.

The reduction in revenue is estimated each period based on the timing of when eligible clients will receive the Recovery Credit and the ultimate amount of the total Recovery Credit. The ultimate amount of the Recovery Credit eligible clients will receive is dependent on future net insurance performance and is subject to a limit on the total amount. To the extent future net insurance performance is worse than expected, the ultimate amount of the Recovery Credit may decrease. We will continue to recognize a reduction to revenues for the Recovery Credit over the period that our customers will earn the right to receive credits, which we currently plan to continue for one year.

Monthly total revenues per Average WSE is a measure we use to monitor the success of our product and service pricing strategies. This measure increased 5% during the third quarter of 2020 and 4% in the nine months ended September 30, 2020, compared to the same periods in 2019.

We also use the following measures to further analyze changes in total revenues:

- Volume - the percentage change in period over period Average WSEs,
- Rate - the combined weighted average percentage changes in service fees for each vertical product and changes in service fees associated with each insurance service offering,
- Mix - the change in composition of Average WSEs within our verticals combined with the composition of our enrolled WSEs within our insurance service offerings, and
- Recovery Credit - the weighted average amounts recognized for the Recovery Credit program.



The growth in total revenues for the third quarter of 2020, when compared to the same period in 2019, was primarily driven by higher health plan enrollment in our insurance service offerings and rate increases. This was partially offset by lower average WSEs and the \$48M reduction for our Recovery Credit. The growth in total revenues for the nine months ended September 30, 2020, when compared to the same period in 2019, was primarily driven by rate increases, higher health plan enrollment in our insurance service offerings and WSE growth in our Technology and Financial Services verticals. This was partially offset by the \$104M reduction recognized for our Recovery Credit.

Operating Income

Our operating income consists of total revenues less insurance costs and OE. Our insurance costs include insurance premiums for coverage provided by insurance carriers, reimbursement of claims payments made by insurance carriers or third-party administrators, and changes in accrued costs related to contractual obligations with our workers' compensation and health benefit carriers. Our OE consists primarily of our corporate employees' compensation related expenses, which includes payroll, payroll taxes, SBC, bonuses, commissions and other payroll-and benefits-related costs.

The tables below provide a view of the changes in components of operating income for the third quarter and nine months ended September 30, 2020, as compared to the same periods in 2019.

(in millions)

\$68	Third Quarter 2019 Operating Income
+6	Higher total revenues primarily as a result of increased health plan enrollment in our insurance service offerings and rate increases, partially offset by lower average WSEs and the \$48 million reduction recognized for our Recovery Credit.
-11	Higher insurance costs from increases in health plan enrollment and utilization of medical services by WSEs.
-18	Higher OE primarily as a result of the non-recurring reduction in variable incentive compensation recognized in the third quarter of 2019 reflecting prior year performance.
\$45	Third Quarter 2020 Operating Income

(in millions)

\$205	YTD 2019 Operating Income
+133	Higher total revenues primarily as a result of increased health plan enrollment in our insurance service offerings, together with WSE growth and rate increases, partially offset by the \$104 million reduction recognized for our Recovery Credit.
-2	Higher insurance costs mainly from increases in health plan enrollment.
+2	Lower OE primarily as a result of expense discipline initiatives enacted in the second quarter of 2020.
\$338	YTD 2020 Operating Income

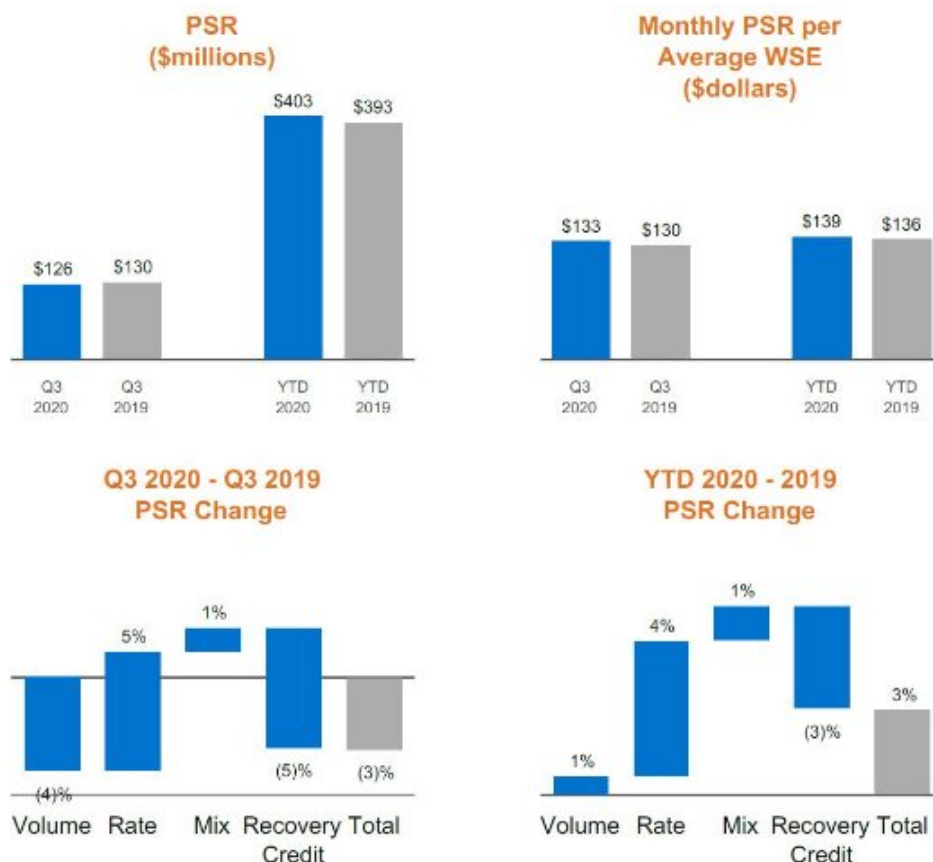
Professional Service Revenues

Our clients are billed either based on a fee per WSE per month per transaction or on a percentage of the WSEs' payroll. For those clients (primarily Main Street clients) that are billed on a percentage of WSEs' payroll, as our clients' payrolls increase or decrease, our fees also increase or decrease, respectively.

Our vertical approach provides us the flexibility to offer our clients in different industries with varied services at different prices, which we believe potentially reduces the value of solely using Average WSE and Total WSE counts as indicators of future potential revenue performance.

We also analyze changes in PSR with the following measures:

- Volume - the percentage change in period over period Average WSEs,
- Rate - the weighted average percentage change in fees for each vertical,
- Mix - the change in composition of Average WSEs across our verticals, and
- Recovery Credit - the weighted average amounts recognized for the Recovery Credit program.



The decrease in PSR for the third quarter of 2020, as compared to the same period in 2019, reflects lower Average WSEs and the Recovery Credit recognized. This was partially offset by rate increases and ongoing changes in the mix of our WSEs.

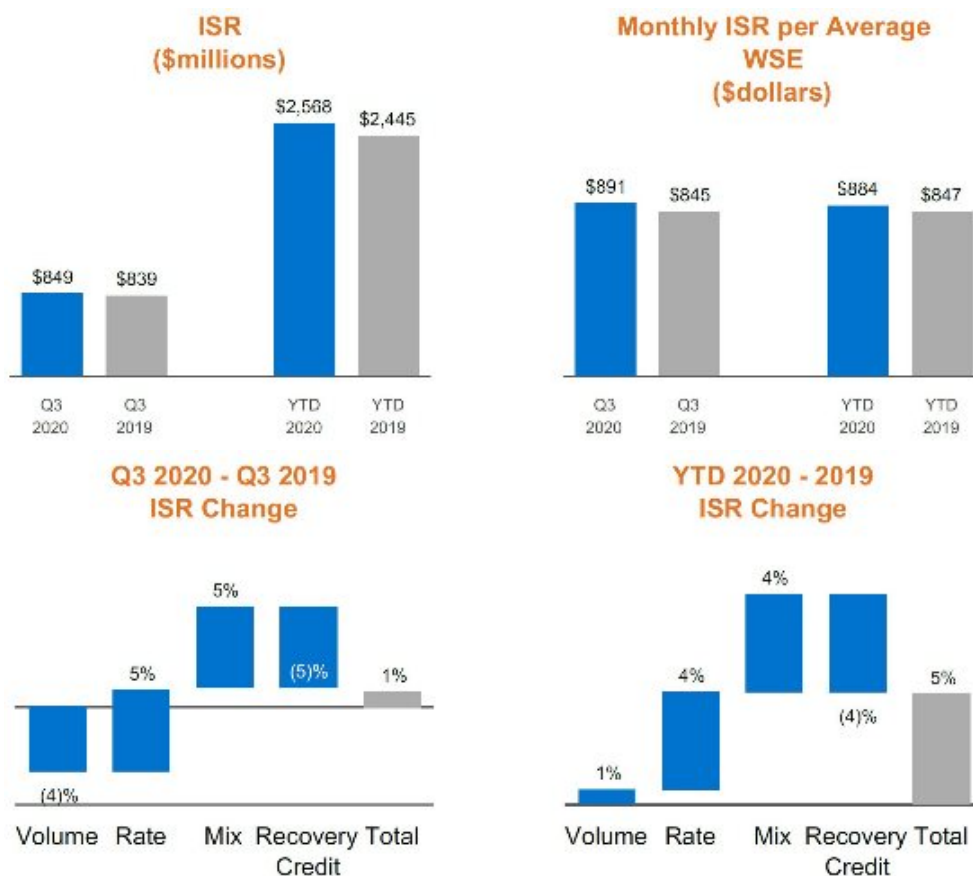
The increase in PSR for the nine months ended September 30, 2020, when compared to the same period in 2019, reflects the result of WSE growth particularly in our Technology and Financial Services verticals, and rate increases. This was partially offset by the Recovery Credit recognized in the second and third quarters of 2020.

Insurance Service Revenues

ISR consists of insurance services-related billings and administrative fees collected from clients and withheld from WSE payroll for health benefits and workers' compensation insurance provided by third-party insurance carriers.

We use the following measures to analyze changes in ISR:

- Volume - the percentage change in period over period Average WSEs,
- Rate - the weighted average percentage change in fees associated with each of our insurance service offerings,
- Mix - all other changes including the composition of our enrolled WSEs within our insurance service offerings (health plan enrollment), and
- Recovery Credit - the weighted average amounts recognized for the Recovery Credit program.



The growth in ISR for the third quarter of 2020, as compared to the same period in 2019, primarily resulted from higher health plan enrollment and rate increases. This was partially offset by lower average WSEs and by the Recovery Credit recognized in the third quarter of 2020.

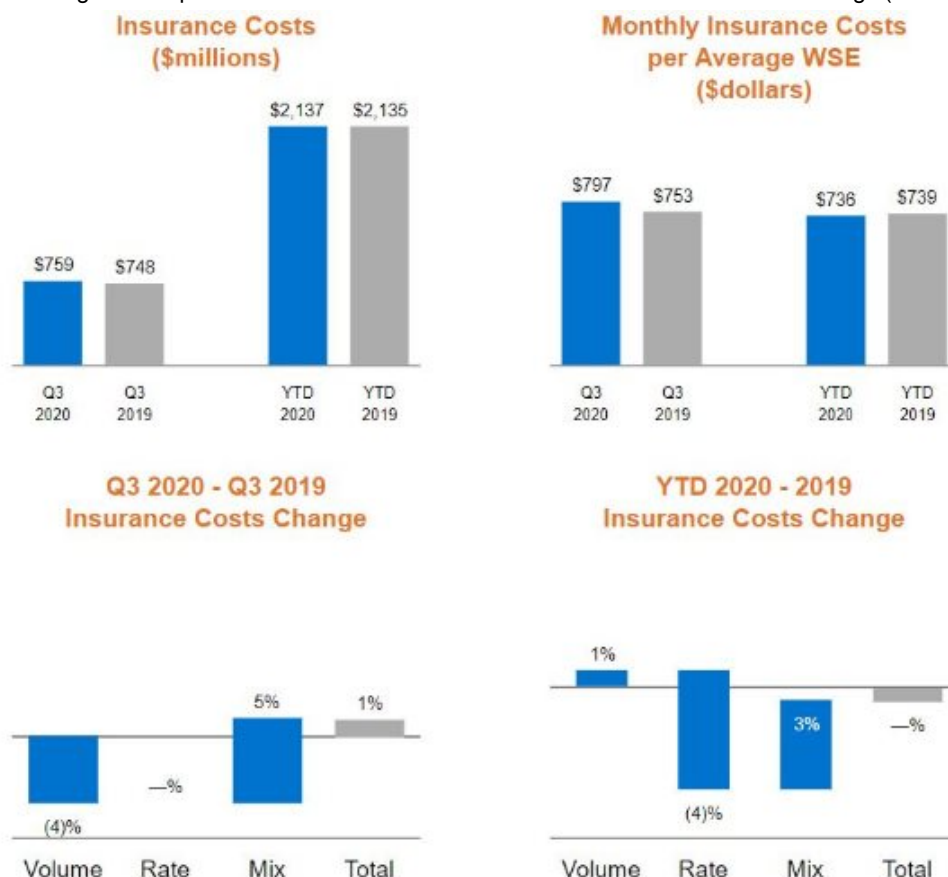
The growth in ISR for the nine months ended September 30, 2020, as compared to the same period in 2019, primarily reflects the result of WSE growth, particularly in our Technology and Financial Services verticals, and higher health plan enrollment. This was partially offset by the Recovery Credit recognized in the second and third quarters of 2020.

Insurance Costs

Insurance costs include insurance premiums for coverage provided by insurance carriers, reimbursement of claims payments made by insurance carriers or third-party administrators, and changes in accrued costs related to contractual obligations with our workers' compensation and health benefit carriers.

We use the following measures to analyze changes in insurance costs:

- Volume - the percentage change in period over period Average WSEs,
- Rate - the weighted average percentage change in cost trend associated with each of our insurance service offerings, and
- Mix - all other changes including the composition of our enrolled WSEs within our insurance service offerings (health plan enrollment).



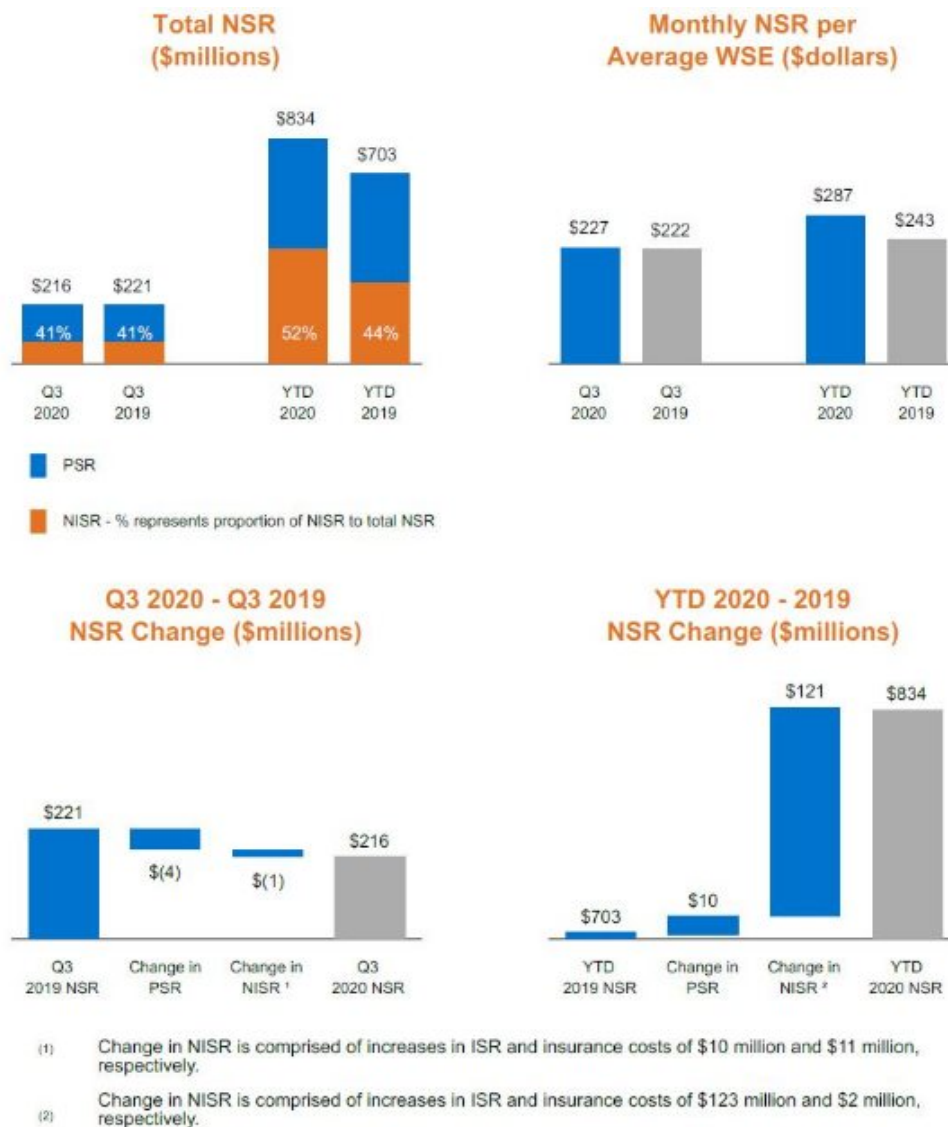
During the third quarter and nine months ended September 30, 2020, as a result of the COVID-19 pandemic, we experienced higher than normal volatility and variability in the amounts that we pay for group health insurance expenses incurred by WSEs within our deductible layer under our risk-based health insurance policies.

Stay-at-home orders and social distancing practices decreased the utilization of medical services from mid-March through April as enrollees deferred or cancelled elective procedures and reduced outpatient medical, dental and vision services. This lower utilization drove the decrease in rate for the nine months ended September 30, 2020. Utilization began to approach more typical levels by the end of the second quarter as enrollees resumed previously deferred or canceled non-essential elective procedures, outpatient medical, dental and vision services and provider networks adapted to providing services during the pandemic. This trend continued in the third quarter, resulting in a flat change in rate.

The decrease in volume in the third quarter of 2020, due to lower Average WSEs for the quarter, was offset by an increase in mix from higher health plan enrollments. For the nine months ended September 30, 2020, the lower rate was offset by increased volume and mix, primarily from higher health plan enrollments.

Net Service Revenues

NSR provides us with a comparable basis of revenues on a net basis, acts as the basis to allocate resources to different functions and helps us evaluate the effectiveness of our business strategies by each business function.



NIM for the third quarter of 2020 was flat compared to the same quarter in 2019 as medical utilization began to approach more typical levels by the end of the second quarter. The NIM increased 4% for the nine months ended September 30, 2020 compared to the same period in 2019, due to lower utilization of medical services, primarily in the second quarter of 2020.

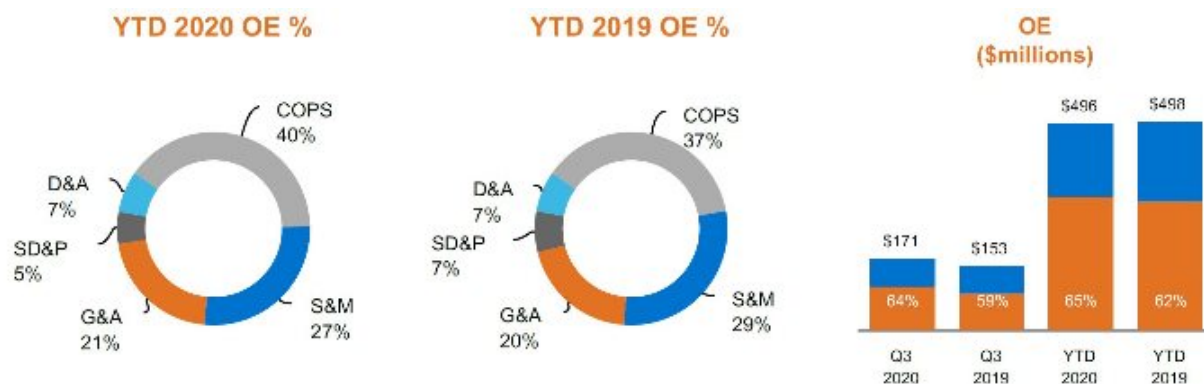
Operating Expenses

OE includes cost of providing services (COPS), sales and marketing (S&M), general and administrative (G&A), systems development and programming (SD&P), and depreciation and amortization expenses (D&A).

We manage our OE and allocate resources across different business functions based on a percentage of NSR, which has increased to 79% in the third quarter of 2020 from 69% when compared to the same period in 2019 and decreased to 60% in the nine months ended September 30, 2020 from 71% when compared to the same period in 2019. The higher percentage of OE to NSR for the third quarter of 2020 when compared to the same period in 2019 was primarily a result of the non-recurring reduction in variable incentive compensation recognized in prior year. The lower percentage of OE to NSR for the nine months ended September 30, 2020 when compared to the same period in 2019 was primarily driven by the significant increase in NSR.

We had approximately 2,800 corporate employees as of September 30, 2020 in 25 offices across the U.S. In the third quarter of 2020, we continued to exit our monthly shared office workspaces. Our corporate employees' compensation-related expenses represent a majority of our operating expenses. Compensation costs for our corporate employees include payroll, payroll taxes, SBC, bonuses, commissions and other payroll- and benefits-related costs. Compensation-related expense represented 64% and 59% of our OE in the third quarters of 2020 and 2019 and 65% and 62% in the nine months ended September 30, of 2020 and 2019, respectively. We have not incurred significant operating expenses related to COVID-19 and our transition to remote work arrangements.

During the third quarter and the nine months ended September 30, 2020, we experienced operating expense increase of 12% and flat when compared to the same periods in 2019. During the third quarter and the nine months ended September 30, 2020, the percent of OE to total revenues was 18% and 17%, compared to the 16% and 18% in the same periods in 2019. While expense discipline initiatives will continue, we expect the ratio of OE to total revenues to increase in subsequent quarters as the rate of growth of total revenues decrease and we continue to invest in projects to improve our customer and WSE experience.



We analyze and present our OE based upon the business functions COPS, S&M, G&A and SD&P and depreciation and amortization. The charts below provide a view of the expenses of the business functions. Dollars are presented in millions and percentages represent year-over-year change.



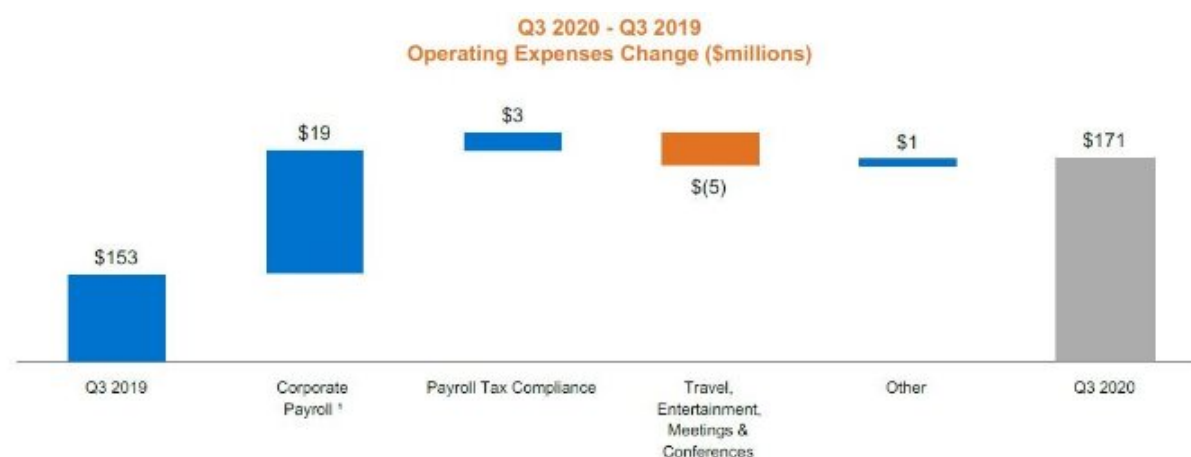
(in millions)

\$153	Q3 2019 Operating Expenses
+9	COPS increased in the third quarter of 2020, driven primarily by the non-recurring reduction in variable incentive compensation recognized in the prior period and an increase in payroll tax compliance costs, partially offset by reduced consulting costs.
-2	S&M decreased in the third quarter of 2020, as we reduced marketing spend, travel and entertainment expenses, partially offset by the non-recurring reduction in variable incentive compensation recognized in the prior period.
+11	G&A increased in the third quarter of 2020, driven primarily by the non-recurring reduction in variable incentive compensation recognized in the prior period and an increase in compliance expenses.
\$171	Q3 2020 Operating Expenses

(in millions)

\$498 YTD 2019 Operating Expenses	
+6	COPS increased in the nine months ended September 30, 2020, driven primarily by the non-recurring reduction in variable incentive compensation recognized in prior year and an increase in technology services, partially offset by reduced consulting costs and travel and entertainment expenses.
-9	S&M decreased in the nine months ended September 30, 2020, as we reduced marketing spend, conference expenses, travel and entertainment expenses.
+7	G&A increased in the nine months ended September 30, 2020, driven primarily by the non-recurring reduction in variable incentive compensation recognized in prior year and increased payroll tax compliance costs, partially offset by consulting and technology services.
-7	SD&P decreased in the nine months ended September 30, 2020, primarily due to a decrease in compensation related expenses from lower headcount.
+1	D&A remained consistent in the nine months ended September 30, 2020.
\$496 YTD 2020 Operating Expenses	

We break out the change in expenses that make up our OE in the chart below:



(1) The relative increase was due to the non-recurring reduction in variable incentive compensation recognized in the third quarter of 2019 reflecting prior year financial performance.



Other Income (Expense)

Other income (expense) consists primarily of interest and dividend income from investments and interest expense under our credit facility.



The decrease in interest income for the third quarter and the nine months ended September 30, 2020, as compared to the same periods in 2019, was primarily due to lower average market interest rates. Interest expense, bank fees and other increased in the third quarter ended September 30, 2020, primarily related to interest expense on payroll tax compliance costs and remained relatively flat for the nine months ended September 30, 2020.

Provision for Income Taxes

Our effective tax rate (ETR) was 14% and 18% for the third quarter of 2020 and 2019, respectively, and 24% and 20% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in rate for the third quarter of 2020 as compared to the same period in 2019 was primarily due to an increase in excludable income for state tax purposes, partially offset by nondeductible compensation. The increase in rate when comparing the year to date rates for 2020 with the same period in 2019 was primarily due to a one-time benefit associated with prior year tax expense and a decrease in tax benefits recognized from excess tax benefits related to stock-based compensation.

Liquidity and Capital Resources

Liquidity

Liquidity is a measure of our ability to access sufficient cash flows to meet the short-term and long-term cash requirements of our business operations. We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to our clients, creditors and debt holders.

Included in our balance sheets are assets and liabilities resulting from transactions directly or indirectly associated with WSEs, including payroll and related taxes and withholdings, our sponsored workers' compensation and health insurance programs, and other benefit programs. Although we are not subject to regulatory restrictions that require us to do so, we distinguish and manage our corporate assets and liabilities separately from those current assets and liabilities held by us to satisfy our employer obligations associated with our WSEs as follows:

(in millions)	September 30, 2020			December 31, 2019		
	Corporate	WSE	Total	Corporate	WSE	Total
Current assets:						
Cash and cash equivalents	\$ 563	\$ —	\$ 563	\$ 213	\$ —	\$ 213
Investments	61	—	61	68	—	68
Restricted cash, cash equivalents and investments	15	817	832	15	1,165	1,180
Other current assets	55	468	523	45	365	410
Total current assets	\$ 694	\$ 1,285	\$ 1,979	\$ 341	\$ 1,530	\$ 1,871
Total current liabilities	\$ 352	\$ 1,285	\$ 1,637	\$ 113	\$ 1,530	\$ 1,643
Working capital	\$ 342	\$ —	\$ 342	\$ 228	\$ —	\$ 228

Working capital for WSEs related activities

We designate funds to ensure that we have adequate current assets to satisfy our current obligations associated with WSEs and the Recovery Credit liability. We manage our WSE payroll and benefits obligations through collections of payments from our clients which generally occurs two to three days in advance of client payroll dates. We regularly review our short-term obligations associated with our WSEs (such as payroll and related taxes, insurance premium and claim payments) and designate funds required to fulfill these short-term obligations, which we refer to as PFC. PFC is included in current assets as restricted cash, cash equivalents and investments.

We manage our sponsored benefit and workers' compensation insurance obligations by maintaining collateral funds in restricted cash, cash equivalents and investments. These collateral amounts are generally determined at the beginning of each plan year and we may be required by our insurance carriers to adjust our collateral balances when facts and circumstances change. We regularly review our collateral balances with our insurance carriers and anticipate funding further collateral in the future based upon our capital requirements. We classify our restricted cash, cash equivalents and investments as current and noncurrent assets to match against the anticipated timing of payments to carriers.

Working capital for corporate purposes

Corporate working capital as of September 30, 2020 increased \$114 million from December 31, 2019, primarily driven by a \$350 million increase in corporate unrestricted cash and cash equivalents, partially offset by a \$234 million draw down under our revolving credit facility, and an increase in our corporate accounts payable and other current liabilities, including income taxes payable.

We use our available cash and cash equivalents to satisfy our operational and regulatory requirements and to fund capital expenditures. We believe that we can meet our present and reasonably foreseeable operating cash needs and future commitments through existing liquid assets, continuing cash flows from corporate operating activities, and the potential issuance of debt or equity securities. We believe that our existing corporate cash and cash equivalents and positive working capital will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months.

Cash Flows

The following table presents our cash flow activities for the stated periods:

(in millions)	Nine Months Ended September 30,					
	2020			2019		
	Corporate	WSE	Total	Corporate	WSE	Total
Net cash provided by (used in):						
Operating activities	\$ 308	\$ (348)	\$ (40)	\$ 146	\$ (357)	\$ (211)
Investing activities	(63)	(88)	(151)	(32)	2	(30)
Financing activities	77	—	77	(109)	—	(109)
Net increase (decrease) in cash and cash equivalents, unrestricted and restricted	\$ 322	\$ (436)	\$ (114)	\$ 5	\$ (355)	\$ (350)
Cash and cash equivalents, unrestricted and restricted:						
Beginning of period	291	1,165	1,456	425	924	1,349
End of period	\$ 613	\$ 729	\$ 1,342	\$ 430	\$ 569	\$ 999
Net increase (decrease) in cash and cash equivalents:						
Unrestricted	\$ 350	\$ —	\$ 350	\$ (12)	\$ —	\$ (12)
Restricted	(28)	(436)	(464)	17	(355)	(338)

Operating Activities

Components of net cash provided by operating activities are as follows:

(in millions)	Nine Months Ended September 30,	
	2020	2019
Net cash used in operating activities	\$ (40)	\$ (211)
Net cash used in operating activities - WSE	(348)	(357)
Net cash provided by operating activities - Corporate	308	146

Year-over-year change in net cash used in operating activities for WSE purposes was primarily driven by timing of client payments, payments of payroll and payroll taxes, settlement of the Recovery Credit liability, and insurance claim activities. We expect the changes in restricted cash and cash equivalents to correspond to WSE cash used in operations as we manage our obligations associated with WSEs through restricted cash.

Our corporate operating cash flows in the nine months ended September 30, 2020 increased, when compared to the same period in 2019, due to the increase in our net income and the timing of our payment of corporate obligations.

Investing Activities

Cash used in investing activities for the periods presented below primarily consisted of purchases of investments and capital expenditures, partially offset by proceeds from the sale and maturity of investments.

(in millions)	Nine Months Ended September 30,	
	2020	2019
Investments:		
Purchases of investments	(278)	(109)
Proceeds from sale and maturity of investments	166	113
Other	(12)	—
Cash provided by (used in) investments	\$ (124)	\$ 4
Capital expenditures:		
Software and hardware	\$ (26)	\$ (27)
Office furniture, equipment and leasehold improvements	(1)	(7)
Cash used in capital expenditures	\$ (27)	\$ (34)
Cash used in investing activities	\$ (151)	\$ (30)

Investments

We invest a portion of available cash in investment-grade securities with effective maturities less than five years that are classified on our balance sheets as investments (unrestricted). We also invest funds held as collateral to satisfy our long-term obligation towards workers' compensation liabilities. These investments are classified on our balance sheets as restricted cash, cash equivalents and investments. We review the amount and the anticipated holding period of these investments regularly in conjunction with our estimated long-term workers' compensation liabilities and anticipated claims payment trend. At September 30, 2020, our investments had a weighted average duration of 1.64 years and an average S&P credit rating of AA.

As of September 30, 2020, we held approximately \$1,802 million in cash, cash equivalents and investments, of which \$563 million was unrestricted cash and cash equivalents and \$202 million was unrestricted investments. Refer to Note 2 in this Form 10-Q for a summary of these funds.

Capital Expenditures

During the nine months ended September 30, 2020 and 2019, we continued to make investments in software and hardware and we enhanced our existing products and technology platform. We expect capital investments in our software and hardware to continue in the future.

Financing Activities

Net cash provided by (used in) financing activities in the nine months ended September 30, 2020 and 2019 consisted of our debt and equity-related activities.

(in millions)	Nine Months Ended September 30,	
	2020	2019
Financing activities		
Repurchase of common stock, net of issuance	\$ (141)	\$ (92)
Draw down from revolving credit facility	234	—
Repayment of borrowings	(16)	(17)
Cash provided by (used in) financing activities	\$ 77	\$ (109)

In February 2020, our board of directors authorized a \$300 million incremental increase to our ongoing stock repurchase program initiated in May 2014. We use this program to return value to our stockholders and to offset dilution from the issuance of stock under our equity-based incentive plan and employee purchase plan.

During the nine months ended September 30, 2020, we repurchased 2,688,538 shares of our common stock for approximately \$135 million through our stock repurchase program. As of September 30, 2020, approximately \$400 million remained available for repurchase under all authorizations by our board of directors. We plan to use current cash and cash generated from ongoing operating activities to fund this share repurchase program.

In response to economic uncertainties resulting from COVID-19, in March 2020 we drew down \$234 million from our revolving credit facility to enhance our short-term cash reserves. The revolving credit facility is payable by June 2023 or earlier at our discretion. Refer to Note 6 in this Form 10-Q for further information.

Capital Resources

Sources of Funds

Our principal source of liquidity for operations is derived from cash provided by operating activities. We rely on cash provided by operating activities to meet our short-term liquidity requirements, which primarily relate to the payment of corporate payroll and other operating costs, and capital expenditures. Our cash flow related to WSE payroll and benefits is generally matched by advance collection from our clients. To minimize the credit risk associated with remitting the payroll and associated taxes and benefits costs, we require clients to prefund the payroll and related payroll taxes and benefits costs.

We believe that we can meet our present and reasonably foreseeable operating cash needs and future commitments through existing liquid assets and continuing cash flows from corporate operating activities.

Covenants

We were in compliance with the financial covenants under our credit facilities at September 30, 2020. For information on the covenants under our 2018 credit facility, refer to Note 9 in Part II, Item 8. Financial Statements and Supplementary Data, of our Form 10-K.

Off-Balance Sheet Arrangements

There have been no additional material changes in our off-balance sheet arrangements discussed in Part II, Item 7. Management's Discussion and Analysis of our 2019 Form 10-K.

Critical Accounting Policies, Estimates and Judgments

There have been no material changes to our critical accounting policies as discussed in our 2019 Form 10-K.

Recent Accounting Pronouncements

Refer to Note 1 in Item 1 of this Form 10-Q.

Quantitative and Qualitative Disclosures About Market Risk

Our exposure to changes in interest rates relates primarily to our investment portfolio and outstanding floating rate debt. Changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents and investments and the fair value of the investments, as well as interest costs associated with our debt.

In June 2019, we entered into an interest rate collar derivative transaction with no upfront premium. We use this derivative to hedge against interest rate risk on a portion of our outstanding floating rate debt. We have designated this derivative as a cash flow hedge. Our primary objective in purchasing and holding this derivative is to reduce our volatility of net earnings and cash flows associated with changes in the benchmark interest rate in our interest rate payments. We do not enter into any derivatives for trading or other speculative purposes.

We performed a sensitivity analysis to determine the impact a change in interest rates would have on the cash flows of the collar assuming a 100 basis point parallel shift in the current LIBOR rate. Based on the terms and remaining settlements as of September 30, 2020, a hypothetical 100 basis point increase in one-month LIBOR across all maturities would not result in any cash receipts by the Company, while a hypothetical 100 basis point decrease in one-month LIBOR across all maturities would result in cash payments of \$5 million.

Our cash equivalents consist primarily of money market mutual funds, which are not significantly exposed to interest rate risk. Our AFS marketable securities are subject to interest rate risk because these securities generally include a fixed interest rate. As a result, the market values of these securities are affected by changes in prevailing interest rates. We attempt to limit our exposure to interest rate risk and credit risk by investing our investment portfolio in instruments that meet the minimum credit quality, liquidity, diversification and other requirements of our investment policy. Our AFS marketable securities consist of highly liquid, investment-grade securities. The risk of rate changes on investment balances was not significant at September 30, 2020 and December 31, 2019.

At September 30, 2020, we had total long-term debt and revolving credit agreement borrowings (total debt) of \$609 million. A 100 basis point increase in market interest rates would cause interest expense on our debt as of September 30, 2020 to increase by \$5 million over the next twelve months of the aggregate long-term debt and revolving credit agreement borrowings. A 100 basis point decrease in market interest rates would cause interest expense on our debt as of September 30, 2020 to increase by \$1 million over the next twelve months of the aggregate long-term debt and revolving credit agreement borrowings. The increase is due to the collar floor terms of our interest rate collar derivative.

At December 31, 2019, we had total outstanding long-term debt of \$391 million. A 100 basis point increase or decrease in market interest rates would cause interest expense on our debt as of December 31, 2019 to increase by \$3 million or to decrease by \$4 million over the next twelve months of the loan, respectively.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have, with the participation of our Chief Executive Officer (CEO) and our Interim Chief Financial Officer (CFO), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2020, our CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of such date in ensuring that (i) information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, to allow timely decisions regarding required disclosure and (ii) such information is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

We have concluded that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

TRINET GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited)

(in millions except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Professional service revenues	\$ 126	\$ 130	\$ 403	\$ 393
Insurance service revenues	849	839	2,568	2,445
Total revenues	975	969	2,971	2,838
Insurance costs	759	748	2,137	2,135
Cost of providing services	68	59	192	186
Sales and marketing	45	47	136	145
General and administrative	38	27	106	99
Systems development and programming	9	9	27	34
Depreciation and amortization of intangible assets	11	11	35	34
Total costs and operating expenses	930	901	2,633	2,633
Operating income	45	68	338	205
Other income (expense):				
Interest expense, bank fees and other	(8)	(6)	(16)	(17)
Interest income	2	5	9	18
Income before provision for income taxes	39	67	331	206
Income taxes	6	12	81	42
Net income	\$ 33	\$ 55	\$ 250	\$ 164
Other comprehensive income, net of income taxes	—	—	4	1
Comprehensive income	\$ 33	\$ 55	\$ 254	\$ 165
Net income per share:				
Basic	\$ 0.49	\$ 0.80	\$ 3.69	\$ 2.35
Diluted	\$ 0.48	\$ 0.78	\$ 3.66	\$ 2.31
Weighted average shares:				
Basic	67	70	68	70
Diluted	68	71	69	71

See accompanying notes.

TRINET GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2020	December 31, 2019
(in millions, except share and per share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 563	\$ 213
Investments	61	68
Restricted cash, cash equivalents and investments	832	1,180
Accounts receivable, net	6	9
Unbilled revenue, net	375	285
Prepaid expenses, net	53	52
Other current assets	89	64
Total current assets	1,979	1,871
Restricted cash, cash equivalents and investments, noncurrent	205	212
Investments, noncurrent	141	125
Property, equipment and software, net	80	85
Operating lease right-of-use asset	42	55
Goodwill	294	289
Other intangible assets, net	19	15
Other assets	107	96
Total assets	\$ 2,867	\$ 2,748
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 42	\$ 31
Revolving credit agreement borrowings	234	—
Long-term debt	22	22
Client deposits and other client liabilities	209	44
Accrued wages	455	391
Accrued health insurance costs, net	160	167
Accrued workers' compensation costs, net	60	61
Payroll tax liabilities and other payroll withholdings	434	901
Operating lease liabilities	11	17
Insurance premiums and other payables	10	9
Total current liabilities	1,637	1,643
Long-term debt, noncurrent	353	369
Accrued workers' compensation costs, noncurrent, net	142	144
Deferred taxes	64	61
Operating lease liabilities, noncurrent	41	48
Other non-current liabilities	10	8
Total liabilities	2,247	2,273
Commitments and contingencies (see Note 7)		
Stockholders' equity:		
Preferred stock	—	—
(\$0.000025 par value per share; 20,000,000 shares authorized; no shares issued or outstanding at September 30, 2020 and December 31, 2019)		
Common stock and additional paid-in capital	730	694
(\$0.000025 par value per share; 750,000,000 shares authorized; 66,897,984 and 69,065,491 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively)		
Accumulated deficit	(115)	(219)
Accumulated other comprehensive income	5	—
Total stockholders' equity	620	475
Total liabilities & stockholders' equity	\$ 2,867	\$ 2,748

See accompanying notes.

TRINET GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total Stockholders' Equity, beginning balance	\$ 616	\$ 439	\$ 475	\$ 375
Common Stock and Additional Paid-In Capital				
Beginning balance	719	667	694	641
Issuance of common stock from exercise of stock options	—	—	—	2
Issuance of common stock for employee stock purchase plan	—	—	5	4
Stock based compensation expense	11	9	31	29
Ending balance	730	676	730	676
Accumulated Deficit				
Beginning balance	(108)	(229)	(219)	(266)
Net income	33	55	250	164
Repurchase of common stock	(35)	(22)	(135)	(84)
Awards effectively repurchased for required employee withholding taxes	(5)	(4)	(11)	(14)
Ending balance	(115)	(200)	(115)	(200)
Accumulated Other Comprehensive Loss				
Beginning balance	5	1	—	—
Other comprehensive income	—	—	5	1
Ending balance	5	1	5	1
Total Stockholders' Equity, ending balance	\$ 620	\$ 477	\$ 620	\$ 477

See accompanying notes.

TRINET GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in millions)	Nine Months Ended September 30,	
	2020	2019
Operating activities		
Net income	\$ 250	\$ 164
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49	41
Amortization of ROU	12	14
Accretion of discount rate on lease liabilities	2	—
Stock based compensation	31	29
Changes in operating assets and liabilities:		
Accounts receivable, net	5	5
Unbilled revenue, net	(90)	(61)
Prepaid expenses, net	(1)	(17)
Accounts payable and other current liabilities	10	(16)
Client deposits and other client liabilities	163	(28)
Accrued wages	63	53
Accrued health insurance costs, net	(7)	21
Accrued workers' compensation costs, net	(2)	(16)
Payroll taxes payable and other payroll withholdings	(467)	(340)
Operating lease liabilities	(15)	(13)
Other assets	(46)	(34)
Other liabilities	3	(13)
Net cash used in operating activities	(40)	(211)
Investing activities		
Purchases of marketable securities	(278)	(109)
Proceeds from sales and maturities of marketable securities	166	113
Acquisitions of property and equipment	(27)	(34)
Other	(12)	—
Net cash used in investing activities	(151)	(30)
Financing activities		
Repurchase of common stock	(135)	(84)
Proceeds from issuance of common stock	5	6
Awards effectively repurchased for required employee withholding taxes	(11)	(14)
Proceeds from revolving credit agreement borrowings	234	—
Repayment of debt	(16)	(17)
Net cash provided by (used in) financing activities	77	(109)
Net decrease in cash and cash equivalents, unrestricted and restricted	(114)	(350)
Cash and cash equivalents, unrestricted and restricted:		
Beginning of period	1,456	1,349
End of period	\$ 1,342	\$ 999
Supplemental disclosures of cash flow information		
Interest paid	\$ 11	\$ 15
Income taxes paid, net	83	48
Supplemental schedule of noncash investing and financing activities		
Payable for purchase of property and equipment	\$ 1	\$ 4

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**(Unaudited)****NOTE 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES****Description of Business**

TriNet Group, Inc. (TriNet, or the Company, we, our and us), a professional employer organization, provides comprehensive human resources solutions for small to midsize businesses under a co-employment model. These 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, employment and benefit law compliance, and other HR-related services. Through the co-employment relationship, we are the employer of record for certain employment-related administrative and regulatory purposes for the worksite employees (WSEs), including:

- compensation through wages and salaries,
- employer payroll-related tax payments,
- employee payroll-related tax withholdings and payments,
- employee benefit programs, including health and life insurance, and others, and
- workers' compensation coverage.

Our clients are responsible for the day-to-day job responsibilities of the WSEs.

We operate in one reportable segment. All of our service revenues are generated from external clients. Less than 1% of our revenue is generated outside of the U.S.

Basis of Presentation

These unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Rules and Regulations of the Securities and Exchange Commission. Certain information and note disclosures included in our annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements reflect all adjustments, that are normal and recurring in nature, necessary for fair financial statement presentation. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the operating results anticipated for the full year. These Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Data of our Annual Report on Form 10-K for the year ended December 31, 2019 (2019 Form 10-K).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect certain reported amounts and related disclosures.

These estimates are based on historical experience and on various other assumptions that we believe to be reasonable from the facts available to us. Some of the assumptions are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our consolidated financial statements could be materially affected.

Revenue Recognition

Performance Obligation: Recovery Credit

In April 2020, we created our Recovery Credit program to assist in the economic recovery of our existing SMB clients and enhance our ability to retain these clients. Under this one-time program eligible clients will receive reductions against fees for future services, accounted for as a discount, over the next two years. This option to renew future services at a discount represents a material right and is accounted for as a new performance obligation (Recovery Credit). This performance obligation will be satisfied when the clients have successfully renewed the services contracts and the future services are transferred.

The consideration we receive that is allocated to this performance obligation is deferred as an unsatisfied performance obligation and is included in client deposits and other client liabilities on the balance sheet. The amount of consideration we defer each period is dependent on the timing of when eligible clients will receive the Recovery Credit and the ultimate amount of the total Recovery Credit. The ultimate amount that clients will receive is dependent on future net insurance performance and is subject to a limit on the total amount.

Client Deposits and Other Client Liabilities

Client deposits and other client liabilities represents our contractual commitments and payables to clients, including indemnity guarantee payments received from clients, amounts prefunded by clients for their payroll and related taxes and other withholding liabilities before payroll is processed or due for payment, as well as service fee consideration received for unsatisfied performance obligations of \$104 million.

Unbilled Revenue

We recognize WSE payroll and payroll tax liabilities in the period in which the WSEs perform work. When clients' pay periods cross reporting periods, we accrue the portion of the unpaid WSE payroll where we assume, under state regulations, the obligation for the payment of wages and the corresponding payroll tax liabilities associated with the work performed prior to period-end. These estimated payroll and payroll tax liabilities are recorded in accrued wages. The associated receivables, including estimated revenues, offset by advance collections from clients and an allowance for credit losses, are recorded as unbilled revenue. As of September 30, 2020, advance collections included in unbilled revenue were \$71 million.

Investments

Our investments are primarily classified as available-for-sale and are carried at estimated fair value.

Unrealized gains and losses are reported as a component of accumulated other comprehensive income, net of deferred income taxes. The amortized cost of debt investments is adjusted for amortization of premiums and accretion of discounts from the date of purchase to the earliest call date for premiums or the maturity date for discounts. Such amortization is included in interest income as an addition to or deduction from the coupon interest earned on the investments. We use the specific identification method to determine realized gains and losses on the sale of available-for-sale securities. Realized gains and losses are included in interest income in the accompanying consolidated statements of income and comprehensive income.

We assess our investments for credit impairment. We review several factors to determine whether an unrealized loss is credit related, such as the financial condition and future prospects of the issuer. To the extent that a security's amortized cost basis exceeds the present value of the cash flows expected to be collected from the security, an allowance for credit losses will be recognized. If management intends to sell or will more likely than not be required to sell the security before any anticipated recovery, a write down will be recognized in earnings measured as the entire difference between the amortized cost and the then-current fair value.

We have investments within our unrestricted and our restricted accounts. Unrestricted investments are recorded on the balance sheet as current or noncurrent based upon the remaining time to maturity, and investments subject to restrictions are classified as current or noncurrent based on the expected payout of the related liability.

Accounts Receivable

Our accounts receivable represents outstanding gross billings to clients, net of an allowance for estimated credit losses. We require our clients to prefund payroll and related liabilities before payroll is processed or due for payment. If a client fails to fund payroll or misses the funding cut-off, at our sole discretion, we may pay the payroll and the resulting amounts due to us are recognized as accounts receivable. When client payment is received in advance of our performance under the contract, such amount is recorded as client deposits. We establish an allowance for credit losses based on the credit quality of clients, current economic conditions, the age of the accounts receivable balances, historical experience, and other factors that may affect clients' ability to pay, and charge-off amounts against the allowance when they are deemed uncollectible. The allowance was insignificant at September 30, 2020 and December 31, 2019.

Accrued Health Insurance Costs

We sponsor and administer a number of fully insured, risk-based employee benefit plans, including group health, dental, and vision as an employer plan sponsor under section 3(5) of the ERISA. In the nine months ended September 30, 2020, a majority of our group health insurance costs related to risk-based plans. Our remaining group health insurance costs were for guaranteed-cost policies.

Accrued health insurance costs are established to provide for the estimated unpaid costs of reimbursing the carriers for paying claims within the deductible layer in accordance with risk-based health insurance policies. These accrued costs include estimates for reported losses, plus estimates for claims incurred but not paid. We assess accrued health insurance costs regularly based upon external actuarial studies that include other relevant factors such as current and historical claims payment patterns, plan enrollment and medical trend rates.

In certain carrier contracts we are required to prepay the expected claims activity for subsequent periods. These prepaid balances by agreement permit net settlement of obligations and offset the accrued health insurance costs. As of September 30, 2020 and December 31, 2019, prepayments and miscellaneous receivables offsetting accrued health insurance costs were \$46 million and \$39 million, respectively. When the prepaid amount is in excess of our recorded liability the net asset position is included in prepaid expenses. As of September 30, 2020 and December 31, 2019, accrued health insurance costs offsetting prepaid expenses were \$59 million and \$52 million, respectively.

Recent Accounting Pronouncements

Recently adopted accounting guidance

We adopted ASU 2016-13 - Financial Instruments - Credit Losses (ASC Topic 326) effective January 1, 2020 using a modified retrospective approach, under which we recognized the cumulative effects of initially applying the Standard as an adjustment to the opening balance of retained earnings on January 1, 2020 with unchanged comparative periods. We are required to use forward-looking information when evaluating an allowance for our accounts receivable, unbilled revenue and other financial assets measured at amortized cost. ASC Topic 326 also modified the impairment guidance for available-for-sale debt securities to require an allowance for credit losses. The adoption of ASC Topic 326 did not have a material effect on our financial statements.

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Under the terms of the agreements with certain of our workers' compensation and health benefit insurance carriers, we are required to maintain collateral in trust accounts for the benefit of specified insurance carriers and to reimburse the carriers' claim payments within our deductible layer. We invest a portion of the collateral amounts in marketable securities. We report the current and noncurrent portions of these trust accounts as restricted cash, cash equivalents and investments on the consolidated balance sheets.

We require our clients to prefund their payroll and related taxes and other withholding liabilities before payroll is processed or due for payment. This prefund is included in restricted cash, cash equivalents and investments as payroll funds collected, which is designated to pay pending payrolls, payroll tax liabilities and other payroll withholdings.

We also invest available corporate funds, primarily in fixed income securities which meet the requirements of our corporate investment policy and are classified as available for sale (AFS).

Our total cash, cash equivalents and investments are summarized below:

(in millions)	September 30, 2020			December 31, 2019			
	Cash and cash equivalents	Available-for-sale marketable securities	Total	Cash and cash equivalents	Available-for-sale marketable securities	Certificate of deposits	Total
Cash and cash equivalents	\$ 563	\$ —	\$ 563	\$ 213	\$ —	\$ —	\$ 213
Investments	—	61	61	—	68	—	68
Restricted cash, cash equivalents and investments:							
Payroll funds collected	664	—	664	1,018	—	—	1,018
Collateral for health benefits claims	16	88	104	98	—	—	98
Collateral for workers' compensation claims	62	—	62	62	—	—	62
Other security deposits	2	—	2	2	—	—	2
Total restricted cash, cash equivalents and investments	744	88	832	1,180	—	—	1,180
Investments, noncurrent	—	141	141	—	125	—	125
Restricted cash, cash equivalents and investments, noncurrent							
Collateral for workers' compensation claims	35	170	205	63	148	1	212
Total	\$ 1,342	\$ 460	\$ 1,802	\$ 1,456	\$ 341	\$ 1	\$ 1,798

NOTE 3. INVESTMENTS

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of our AFS investments as of September 30, 2020 and December 31, 2019 are presented below.

(in millions)	September 30, 2020				December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset-backed securities	\$ 22	\$ —	\$ —	\$ 22	\$ 30	\$ —	\$ —	\$ 30
Corporate bonds	118	3	—	121	123	1	—	124
U.S. government agencies and government-sponsored agencies	20	—	—	20	14	—	—	14
U.S. treasuries	285	5	—	290	163	—	—	163
Certificate of deposit	—	—	—	—	1	—	—	1
Other debt securities	7	—	—	7	10	—	—	10
Total	\$ 452	\$ 8	\$ —	\$ 460	\$ 341	\$ 1	\$ —	\$ 342

Gross unrealized losses were immaterial at September 30, 2020 and December 31, 2019.

Unrealized losses on fixed income securities are principally caused by changes in interest rates and the financial condition of the issuer. In analyzing an issuer's financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by credit rating agencies have occurred, and industry analysts' reports. As we have the ability to hold these investments until maturity, or for the foreseeable future, no decline was deemed to be other-than-temporary. Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

The fair value of debt investments by contractual maturity are shown below:

(in millions)	September 30, 2020
One year or less	\$ 98
Over one year through five years	337
Over five years through ten years	4
Over ten years	21
Total fair value	\$ 460

The gross proceeds from sales and maturities of AFS securities for the three and nine months ended September 30, 2020 and September 30, 2019 are presented below. We had immaterial gross realized gains and losses from sales of investments for the three and nine months ended September 30, 2020 and 2019.

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Gross proceeds from sales	\$ 18	\$ 24	\$ 70	\$ 52
Gross proceeds from maturities	29	25	96	61
Total	47	49	\$ 166	\$ 113

NOTE 4. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

We use an independent pricing source to determine the fair value of our securities. The independent pricing source utilizes various pricing models for each asset class; including the market approach. The inputs and assumptions for the pricing models are market observable inputs including trades of comparable securities, dealer quotes, credit spreads, yield curves and other market-related data.

We have not adjusted the prices obtained from the independent pricing service and we believe the prices received from the independent pricing service are representative of the prices that would be received to sell the assets at the measurement date (exit price).

The carrying value of the Company's cash equivalents and restricted cash equivalents approximate their fair values due to their short-term maturities.

We did not have any Level 3 financial instruments recognized in our balance sheet as of September 30, 2020 and December 31, 2019. There were no transfers between levels as of September 30, 2020 and December 31, 2019.

Fair Value Measurements on a Recurring Basis

The following tables summarize our financial instruments by significant categories and fair value measurement on a recurring basis as of September 30, 2020 and December 31, 2019.

(in millions)	Level 1	Level 2	Total
September 30, 2020			
Cash equivalents:			
Money market mutual funds	\$ 7	\$ —	7
Total cash equivalents	7	—	7
Investments:			
Asset-backed securities	—	22	22
Corporate bonds	—	90	90
U.S. government agencies and government-sponsored agencies	—	6	6
U.S. treasuries	—	77	77
Other debt securities	—	7	7
Total investments	—	202	202
Restricted cash equivalents:			
Money market mutual funds	84	—	84
Commercial paper	13	—	13
Total restricted cash equivalents	97	—	97
Restricted investments:			
Corporate bonds	—	31	31
U.S. government agencies and government-sponsored agencies	—	14	14
U.S. treasuries	—	213	213
Total restricted investments	—	258	258
Total cash equivalents and investments and restricted cash equivalents and investments	\$ 104	\$ 460	\$ 564

(in millions)	Level 1	Level 2	Total
December 31, 2019			
Cash equivalents			
Money market mutual funds	\$ 89	\$ —	89
U.S. treasuries	—	3	3
Total cash equivalents	89	3	92
Investments			
Asset-backed securities	—	30	30
Corporate bonds	—	96	96
U.S. government agencies and government-sponsored agencies	—	5	5
U.S. treasuries	—	53	53
Other debt securities	—	10	10
Total investments	—	194	194
Restricted cash equivalents:			
Money market mutual funds	42	—	42
U.S. treasuries	—	12	12
Certificate of deposit	—	2	2
Commercial paper	14	—	14
Total restricted cash equivalents	56	14	70
Restricted investments:			
Corporate bonds	—	28	28
U.S. government agencies and government-sponsored agencies	—	9	9
U.S. treasuries	—	110	110
Certificate of deposit	—	1	1
Total restricted investments	—	148	148
Total investments and restricted cash equivalents and investments	\$ 145	\$ 359	\$ 504

Fair Value of Financial Instruments Disclosure

Long-Term Debt and Revolving Credit Agreement Borrowings

Our long-term debt and revolving credit agreement borrowings are floating rate debt. At September 30, 2020 and December 31, 2019, the fair value of our floating rate long-term debt approximated its carrying value (exclusive of issuance costs). The fair value of our floating rate debt is estimated based on a discounted cash flow, which incorporates credit spreads, market interest rates and contractual maturities to estimate the fair value and is considered Level 3 in the hierarchy for fair value measurement.

Derivative Instruments

In June 2019, we entered into an interest rate collar derivative transaction with no upfront premium to mitigate the risk of changes in interest rates on the interest payments on a portion of our floating rate debt. If short-term interest rates increase, we will incur higher interest expense on any future outstanding balances of floating rate debt. We use this derivative as part of our interest rate risk management strategy and designated it as a cash flow hedge. If interest rates rise above the cap strike rate on the contract, we will receive variable-rate amounts and if interest rates fall below the floor strike rate on the contract, we will pay variable-rate amounts.

The following table summarizes the fair value of our derivative instruments at September 30, 2020:

(in millions)	Hedge type	Final settlement date	Notional amount	Fair Market Value			
				September 30, 2020		December 31, 2019	
				Other current assets	Accounts payable and other current liabilities	Other current assets	Accounts payable and other current liabilities
Derivatives designated as hedging instruments							
Collar - LIBOR	Cash flow	May 2022 \$	213 \$	— \$	1 \$	— \$	—

The pre-tax effect of derivative instruments for the nine months ended September 30, 2020 is insignificant and we estimate approximately \$1 million of net derivative losses included in other comprehensive income will be reclassified into earnings within the following 12 months. There were insignificant cash flows associated with the derivative for the nine months ended September 30, 2020 and for the year ended December 31, 2019.

As of September 30, 2020 and December 31, 2019, we do not hold, nor have we posted, any collateral related to the above derivative instrument.

The interest rate collar derivative is classified as Level 2 in the fair value hierarchy as its value is determined using observable inputs such as forward LIBOR curves.

NOTE 5. ACCRUED WORKERS' COMPENSATION COSTS

The following table summarizes the accrued workers' compensation cost activity for the three and nine months ended September 30, 2020 and 2019:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total accrued costs, beginning of period	\$ 211	\$ 224	\$ 214	\$ 238
Incurring				
Current year	15	19	48	54
Prior years	(3)	(6)	(12)	(22)
Total incurred	12	13	36	32
Paid				
Current year	(2)	(5)	(5)	(8)
Prior years	(11)	(11)	(35)	(41)
Total paid	(13)	(16)	(40)	(49)
Total accrued costs, end of period	\$ 210	\$ 221	\$ 210	\$ 221

The following summarizes workers' compensation liabilities on the condensed consolidated balance sheets:

(in millions)	September 30, 2020	December 31, 2019
Total accrued costs, end of period	\$ 210	\$ 214
Collateral paid to carriers and offset against accrued costs	(8)	(9)
Total accrued costs, net of carrier collateral offset	\$ 202	\$ 205
Payable in less than 1 year (net of collateral paid to carriers of \$3 at September 30, 2020 and December 31, 2019)	\$ 60	\$ 61
Payable in more than 1 year (net of collateral paid to carriers of \$5 and \$6 at September 30, 2020 and December 31, 2019, respectively)	142	144
Total accrued costs, net of carrier collateral offset	\$ 202	\$ 205

Incurred claims related to prior years represent changes in estimates for ultimate losses on workers' compensation claims. For the three and nine months ended September 30, 2020, the change was primarily due to a decrease in estimate of ultimate losses related to older plan years and recognition of current year development of ultimate loss.

As of September 30, 2020 and December 31, 2019, we had \$46 million and \$46 million, respectively, of collateral held by insurance carriers of which \$8 million and \$9 million, respectively, was offset against accrued workers' compensation costs as the agreements permit and are net settled against collateral held.

NOTE 6. REVOLVING CREDIT AGREEMENT BORROWINGS

As of September 30, 2020, our revolving credit agreement borrowings consisted of the following:

(in millions)	September 30, 2020
Current Liabilities:	
Revolving credit facility	\$ 234
Annual contractual interest rate	1.78 %
Effective interest rate	2.01 %

Our credit agreement entered in June 2018 (2018 Credit Agreement) includes a \$250 million revolving credit facility (2018 Revolver), which could be used solely for working capital and other general corporate purposes. Letters of credit issued pursuant to the revolving credit facility reduce the amount available for borrowing under the 2018 Revolver. In March 2020, we drew down \$234 million under this facility. As of September 30, 2020, we had \$16 million of letters of credit outstanding under the 2018 Revolver.

Interest on our 2018 Revolver is payable monthly and is variable based on LIBOR plus 1.625% or the prime rate plus 0.625%, at our option, subject to certain rate adjustments based upon our total leverage ratio. As of September 30, 2020, the interest rate was based on LIBOR plus 1.625%. We are required to pay a quarterly commitment fee on the daily unused amount of the commitments under our 2018 Revolver, as well as fronting fees and other customary fees for letters of credit issued under our 2018 Revolver, which is subject to adjustments based on our total leverage ratio.

Borrowings under our 2018 Revolver are secured by substantially all of our assets, other than excluded assets as defined in our 2018 Credit Agreement, which includes certain customary assets, assets held in trusts as collateral and WSE related assets.

The outstanding balance on the 2018 Revolver is payable by June 2023. We are permitted to make voluntary prepayments at any time without payment of a premium. We are required to make mandatory prepayments of term loans (without payment of a premium) with (i) net cash proceeds from issuances of debt (other than certain permitted debt), 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 2018 Credit Agreement contains certain financial covenants and restrictive covenants customary for facilities of this type, including restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of indebtedness (other than our 2018 Term Loan and our 2018 Revolver), dividends, distributions and transactions with affiliates, as well as minimum interest coverage and maximum total leverage ratio requirements. We were in compliance with all financial covenants under the credit facilities at September 30, 2020.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Contingencies

On September 29, 2020, a class action was filed in the United States District Court for the Middle District of Florida against the directors of certain TriNet subsidiaries and other TriNet employees on behalf of participants in two retirement plans available to TriNet's eligible worksite employees, the TriNet 401(k) Plan and the TriNet Select 401(k) Plan (the "Plans"). The complaint is similar to claims recently brought against a number of employers including PEOs this year and generally alleges that the defendants violated certain fiduciary obligations to Plan participants under the Employee Retirement Income Security Act of 1974 with respect to overseeing plan investment and recordkeeping fees. These claims are in the earliest stages, and we are unable to reasonably estimate any possible loss, or range of loss, with respect to this matter. We believe the claims are without merit.

We are and, from time to time, have been and may in the future become involved in various litigation matters, legal proceedings, and claims arising in the ordinary course of our business, including disputes with our clients or various class action, collective action, representative action, and other proceedings arising from the nature of our co-employment relationship with our clients and WSEs in which we are named as a defendant. In addition, due to the nature of our co-employment relationship with our clients and WSEs, we could be subject to liability for federal and state law violations, even if we do not participate in such violations. While our agreements with our clients contain indemnification provisions related to the conduct of our clients, we may not be able to avail ourselves of such provisions in every instance. We have accrued our current best estimates of probable losses with respect to these matters, which are individually and in aggregate immaterial to our consolidated financial statements.

While the outcome of the matters described above cannot be predicted with certainty, management currently does not believe that any such claims or proceedings will have a materially adverse effect on our consolidated financial position, results of operations, or cash flows. However, the unfavorable resolution of any particular matter or our reassessment of our exposure for any of the above matters based on additional information obtained in the future could have a material impact on our consolidated financial position, results of operations, or cash flows.

NOTE 8. STOCK BASED COMPENSATION

Equity-Based Incentive Plans

Our 2019 Equity Incentive Plan (the 2019 Plan), approved in May 2019, provides for the grant of stock-based and cash-based awards, including stock options, RSUs, and RSAs. Shares available for grant as of September 30, 2020 were approximately 2 million.

The 2009 Equity Incentive Plan (the 2009 Plan), was replaced by the 2019 Plan, except that any outstanding awards granted under the 2009 Plan remain in effect pursuant to their terms.

Restricted Stock Units (RSUs) and Restricted Stock Awards (RSAs)

Time-based RSUs and RSAs generally vest over a four-year term. Performance-based RSUs and RSAs are subject to vesting requirements and are earned, in part, based on certain financial performance metrics as defined in the grant notice. Actual number of shares earned may range from 0% to 200% of the target award. Performance-based awards granted in 2020 and 2018 are based on a single-year performance period subject to subsequent multi-year vesting with 50% of the shares earned vesting in one year after the performance period and the remaining shares in the year after. The performance-based awards granted in 2019 were previously cancelled. RSUs and RSAs are generally forfeited if the participant terminates service prior to vesting.

The following tables summarize RSU and RSA activity under our equity-based plans for the nine months ended September 30, 2020:

	Time-based RSUs and RSAs			Weighted-Average Grant Date Fair Value
	Total Number of RSUs	Total Number of RSAs	Total Number of Shares	
Nonvested at December 31, 2019	1,104,729	61,136	1,165,865	\$ 48.47
Granted	840,777	—	840,777	52.02
Vested	(514,938)	(21,099)	(536,037)	44.32
Forfeited	(99,518)	(3,611)	(103,129)	50.89
Nonvested at September 30, 2020	1,331,050	36,426	1,367,476	\$ 52.09

	Performance-based RSUs and RSAs			Weighted-Average Grant Date Fair Value
	Total Number of RSUs	Total Number of RSAs	Total Number of Shares	
Nonvested at December 31, 2019	15,752	114,857	130,609	\$ 49.70
Granted	183,981	—	183,981	52.86
Forfeited	—	(11,036)	(11,036)	47.61
Nonvested at September 30, 2020	199,733	103,821	303,554	\$ 51.69

Stock Based Compensation

Stock based compensation expense is measured based on the fair value of the stock award on the grant date and recognized over the requisite service period for each separately vesting portion of the stock award. Stock based compensation expense and other disclosures for stock based awards made to our employees pursuant to the equity plans was as follows:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of providing services	\$ 2	\$ 2	\$ 7	\$ 6
Sales and marketing	2	1	5	2
General and administrative	6	5	17	19
Systems development and programming costs	1	1	2	2
Total stock based compensation expense	\$ 11	\$ 9	\$ 31	\$ 29
Total stock based compensation capitalized	\$ —	\$ —	\$ 1	\$ —

NOTE 9. STOCKHOLDERS' EQUITY

Common Stock

The following table presents a rollforward of our common stock for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Shares issued and outstanding, beginning balance	67,292,864	69,991,145	69,065,491	70,596,559
Issuance of common stock from vested restricted stock units ¹	158,041	198,478	500,291	699,188
Issuance of common stock from exercise of stock options	25,075	23,441	65,684	163,214
Issuance of common stock for employee stock purchase plan	—	—	130,532	112,623
Repurchase of common stock	(521,137)	(307,046)	(2,688,538)	(1,482,655)
Awards effectively repurchased for required employee withholding taxes	(56,859)	(71,765)	(175,476)	(254,676)
Shares issued and outstanding, ending balance	66,897,984	69,834,253	66,897,984	69,834,253

⁽¹⁾ Net of shares of common stock underlying cancelled RSAs

Stock Repurchases

In February 2020, our board of directors authorized a \$300 million incremental increase to our ongoing stock repurchase program. This repurchase authorization has no expiration. We retire shares in the period they are acquired and account for the payment as a reduction to stockholders' equity.

During the nine months ended September 30, 2020, we repurchased 2,688,538 shares of common stock for approximately \$135 million. As of September 30, 2020, approximately \$400 million remained available for further repurchases of our common stock under all authorizations from our board of directors under this program.

NOTE 10. INCOME TAXES

Our ETR was 14% and 18% for the third quarter of 2020 and 2019, respectively, and 24% and 20% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in rate for the third quarter 2020 as compared to the prior period was primarily due to an increase in excludable income for state tax purposes, partially offset by nondeductible compensation. The increase in rate when comparing the year to date rates for 2020 with the same period in 2019 was primarily due to a one-time benefit associated with prior year tax expense and a decrease in tax benefits recognized from excess tax benefits related to stock-based compensation.

During the nine months ended September 30, 2020, there was an increase of \$1 million in our unrecognized tax benefits. The total amount of gross interest and penalties accrued was immaterial. It is reasonably possible the amount of the unrecognized benefit could increase or decrease within the next twelve months for which an estimate of the impact on net income cannot be made.

We are subject to tax in U.S. federal and various state and local jurisdictions, as well as Canada. We are open to federal and significant state income tax examinations for tax years 2015 and subsequent years.

We previously paid Notices of Proposed Assessments disallowing employment tax credits totaling \$11 million, plus interest of \$4 million in connection with the IRS examination of Gevity HR, Inc. and its subsidiaries, which was acquired by TriNet in June 2009. TriNet filed suit in June 2016 to recover the disallowed credits, and the issue is being resolved through the litigation process. TriNet and the U.S. filed cross motions for summary judgment in federal district court. On September 17, 2018, the district court granted our motion for summary judgment and denied the U.S.'s motion. On January 18, 2019, the district court entered judgment in favor of TriNet in the amount of \$15 million, plus interest. The U.S. filed a notice of appeal of the federal district court's decision on March 18, 2019. The U.S. filed its opening brief in the court of appeals on June 10, 2019 and we filed our answering brief on July 24, 2019 to which the government filed its reply brief on September 6, 2019. Oral arguments occurred on March 11, 2020. We will continue to vigorously defend our position through the litigation process. Given the uncertainty of the outcome of any appeal, it remains possible that our recovery of the refund will be less than the total amount in dispute.

NOTE 11. EARNINGS PER SHARE (EPS)

The following table presents the computation of our basic and diluted EPS attributable to our common stock:

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 33	\$ 55	\$ 250	\$ 164
Weighted average shares of common stock outstanding	67	70	68	70
Basic EPS	\$ 0.49	\$ 0.80	\$ 3.69	\$ 2.35
Net income	\$ 33	\$ 55	\$ 250	\$ 164
Weighted average shares of common stock outstanding	67	70	68	70
Dilutive effect of stock options and restricted stock units	1	1	1	1
Weighted average shares of common stock outstanding - diluted	68	71	69	71
Diluted EPS	\$ 0.48	\$ 0.78	\$ 3.66	\$ 2.31
Common stock equivalents excluded from income per diluted share because of their anti-dilutive effect	—	—	1	1

NOTE 12. ACQUISITION

In July 2020, the Company acquired all of the shares outstanding of Little Bird HR, Inc. ("Little Bird"), a privately held PEO specializing in benefits and human resource solutions for the education institution industry in the Greater New York area and East Coast region. This acquisition reflects our ability to identify attractive verticals and industries where our value proposition is particularly well-suited.

The Company recorded the acquisition using the acquisition method of accounting and recognized assets at their fair value as of the date of acquisition, with the excess recorded to goodwill. The fair values of assets acquired and liabilities assumed may change over the measurement period as additional information is received. The measurement period will end no later than one year from the acquisition date.

The following table summarizes the major classes of assets acquired:

(in millions)	September 30, 2020
Accounts receivable	\$ 2
Customer list intangible	8
Goodwill	5

The results from this acquisition have been included in the Company's consolidated financial statements since the closing of the acquisition. Pro forma financial information was not presented because the effect of the acquisition was not material to the Company's results of operations and financial condition. The goodwill associated with the acquisition is not deductible for income tax purposes. Immaterial direct costs related to the acquisition were recorded as G&A as incurred.

Legal Proceedings

For the information required in this section, refer to Note 7 in the condensed consolidated financial statements and related notes included in this Form 10-Q.

Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

Not applicable.

(b) Use of Proceeds from Sales of Unregistered Securities

Not applicable.

(c) Issuer Purchases of Equity Securities

The following table provides information about our purchases of TriNet common stock during the quarter ended September 30, 2020:

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans ⁽²⁾	Approximate Dollar Value (\$ millions) of Shares that May Yet be Purchased Under the Plans ⁽²⁾
July 1 - July 31, 2020	36,345	\$ 66.58	35,141	\$ 433
August 1 - August 30, 2020	394,465	\$ 68.67	340,035	\$ 410
September 1 - September 30, 2020	147,186	\$ 64.15	145,961	\$ 400
Total	577,996		521,137	

(1) Includes shares surrendered by employees to us to satisfy tax withholding obligations that arose upon vesting of RSUs granted pursuant to approved plans.

(2) We repurchased a total of approximately \$35 million of our outstanding common stock during the period ended September 30, 2020.

As of September 30, 2020, we had approximately \$400 million remaining for repurchases under our stock repurchase program. Stock repurchases under the program are primarily intended to offset the dilutive effect of share-based employee incentive compensation. The purchases were funded from existing cash and cash equivalents balances.

Our stock repurchases are subject to certain restrictions under the terms of our 2018 credit facility. For more information about our 2018 credit facility and our stock repurchases, refer to Notes 9 and 10 in Part II, Item 8. Financial Statements and Supplementary Data of our 2019 Form 10-K.

Defaults Upon Senior Securities

Not applicable.

Mine Safety Disclosures

Not applicable.

Other Information

Not applicable.

Exhibits

Incorporated herein by reference is a list of the exhibits contained in the Exhibit Index below.

EXHIBIT INDEX

Exhibit No.	Exhibit	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of TriNet Group, Inc.	8-K	001-36373	3.1	4/1/2014	
3.2	Certificate of Correction of Amended and Restated Certificate of Incorporation of TriNet Group, Inc.	10-Q	001-36373	3.1	11/2/2017	
3.2	Amended and Restated Bylaws of TriNet Group, Inc.	S-1/A	333-192465	3.4	3/4/2014	
4.1	Registration Rights Agreement, by and between TriNet Group, Inc. and AGI-T, L.P., dated as of February 1, 2017.	8-K	001-36373	4.1	2/2/2017	
10.1	Employment Agreement, dated August 13, 2020, between Kelly Lee Tuminelli and TriNet USA, Inc.					X
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					
101.SCH	XBRL Taxonomy Extension Schema Linkbase Document					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					
104	Cover Page Interactive Data File (embedded with the Inline XBRL document)					

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

SIGNATURES

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

TRINET GROUP, INC.

Date: October 26, 2020

By: /s/ Burton M. Goldfield
Burton M. Goldfield
Chief Executive Officer

Date: October 26, 2020

By: /s/ Michael P. Murphy
Michael P. Murphy
Principal Financial and Accounting Officer

TRINET USA, INC.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is entered into by and between Kelly Lee Tuminelli (formerly known as Kelly Lee Groh) (the "**Executive**," "**you**" or "**your**") and TriNet USA, Inc., a Delaware corporation (the "**Company**") (each a "**Party**," and collectively the "**Parties**"), as of August 13, 2020. This Agreement amends, supersedes and terminates any and all prior agreements with respect to your employment terms and severance benefits, without limitation, including but not limited to, any oral or written offers, agreements or summaries of employment terms (the "**Previous Agreements**"), and no benefits of any sort shall be paid under said Previous Agreements.

NOW, THEREFORE, in consideration of the promises and the mutual covenants herein contained, the Parties hereby agree as follows:

1. EMPLOYMENT BY THE COMPANY.

1.1 Title and Responsibilities. Subject to the terms set forth herein, and effective on the date on which you commence your employment with the Company, which shall be no later than September 8, 2020 (the "**Effective Date**"), you will be employed as the Executive Vice President of Finance for the Company and you will report to the Chief Executive Officer of the Company. Effective immediately following filing of the Quarterly Report on Form 10-Q for TriNet Group, Inc. ("**TriNet**," which is the parent of Company) for the period ended September 30, 2020 with the U.S. Securities and Exchange Commission, you will be appointed as the Executive Vice President and Chief Financial Officer of TriNet and you will report to the Chief Executive Officer of TriNet. During your employment with the Company, you will devote your best efforts and substantially all of your business time and attention (except for vacation periods and reasonable periods of illness or other incapacity permitted by the Company's general employment policies) to the business of the Company. Within this relationship, you shall be expected to perform those duties the Company requires, within the bounds of its policies and the law, to the highest professional and ethical standards. Notwithstanding the foregoing, it is acknowledged and agreed that you may engage in civic and not-for-profit activities and/or serve on the boards of directors of noncompetitive private or public companies; *provided, however*, in each case that such activities do not materially interfere with the performance of your duties hereunder and, for service on any board of directors, prior approval is obtained from the Chief Legal Officer of TriNet.

1.2 At-Will Employment. Your relationship with the Company is at-will, which means that you and the Company will have the right to terminate your employment with the Company at any time with or without cause, and with or without advance notice. In addition, the Company retains the discretion to modify the terms of your employment, including but not limited to position, duties, reporting relationship, office location, compensation, and benefits, at any time; *provided, however*, that any such modification will not affect your rights under the Severance Plan (as defined below). You also may be removed from any position you hold in the manner specified by the Bylaws of TriNet and applicable law.

1.3 Company Employment Policies. The employment relationship between the parties will be governed by this Agreement and the standard employment terms and conditions as set forth in the Company's employee handbook and other form agreements, policies and procedures of the Company, including those relating to the mandatory arbitration provisions relating to employment-

related disputes, the protection of confidential information and the assignment of inventions, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or procedures, this Agreement will control.

2. COMPENSATION.

2.1 Salary. You will earn a base salary that is established in accordance with Company policy and that is payable semi-monthly on the Company's standard payroll dates, less any payroll deductions and all required taxes and withholdings. Your base salary starting on the Effective Date is Six Hundred Twenty-Five Thousand Dollars (\$625,000) (your "**Salary**"). You will be considered for annual adjustments in base salary in accordance with Company policy and subject to review and approval by the Compensation Committee of the Board (the "**Committee**"). This is a full-time, exempt position and you are expected to work the Company's normal business hours and such additional time as may be required by the nature of your work assignments (for which you will not be eligible for overtime compensation).

2.2 Equity Awards. The parties agree that, in exchange for acceptance of the offer of employment and the execution of this Agreement, after the Effective Date, the Chief Executive Officer will recommend to the Committee an equity grant with a grant date value of Three Million Dollars (\$3,000,000) (the "**RSU Award**") comprised of time-vested restricted stock units to be settled in shares of TriNet common stock ("**RSUs**"). The RSU Award shall be made pursuant to TriNet's 2019 Equity Incentive Plan and shall be subject to the terms and conditions set forth in the TriNet's forms of grant notice and award agreements. Approval of the recommendation of each Equity Award is in the sole and unreviewable discretion of the Committee. The number of RSUs actually awarded under the RSU Award shall be determined based on the closing market price on the Grant Date, as defined under the Committee's standard award resolution language, following approval by the Committee. The RSUs under the RSU Award shall, if and when granted by the Committee, be subject to a four-year vesting schedule for new hires, with one-fourth of the total shares subject to the RSU Award (rounded down to the nearest whole share) vesting on the first anniversary of the Grant Date, and thereafter one-sixteenth of the total shares vesting on the 15th day of the second month of each calendar quarter after the first anniversary of the Grant Date (rounded down to the nearest whole share, except for the last vesting installment which will be rounded up or down, as necessary, to account for any prior fractional shares), in each case provided that you are an Employee, Non-Employee Director or Consultant (each as defined in TriNet's 2019 Equity Incentive Plan) of the Company or TriNet on such vesting date.

You will be considered for annual or periodic "refresh" equity awards at the same time as the other executives, which will be subject to the terms and conditions of the TriNet's equity incentive plan and the grant agreements. Approval of the recommendation of any equity award is in the sole and unreviewable discretion of the Committee.

2.3 Target Variable Compensation. Each year, you will be eligible to earn an annual performance-based variable compensation amount based on the achievement of corporate performance goals established by the Company and subject to approval by the Committee and individual performance goals and objectives, with the target amount for such variable compensation established in the Company's annual executive bonus plan (the "**Target Variable Compensation**"). For 2020, your Target Variable Compensation shall be 100% of your annual base salary, subject to the achievement of the corporate and individual performance goals and objectives and subject to proration based on your actual service period for the year. Achievement against goals and the actual amount of the Target Variable Compensation

earned will be determined by the Company, in its sole discretion, and will be subject to the approval of the Committee. In order to earn and be paid such variable compensation, you must remain an active employee throughout the full-time period for which the Target Variable Compensation is paid, and for which time period the Company and the Committee assesses performance and the related compensation amounts, and you must be employed and in good standing on the date of Target Variable Compensation distribution. Any earned Target Variable Compensation shall be paid within thirty (30) days following its determination and approval by the Committee.

2.4 Sign-On Bonus. You will be eligible for a cash bonus in the amount of One Million Dollars (\$1,000,000), less applicable taxes, deductions and withholdings, to be paid in one lump sum no later than December 31, 2020 (the “**Sign-On Bonus**”). In the event you voluntarily terminate your employment within two years of the Effective Date, you will be responsible for immediate repayment of the Sign-On Bonus in full to the Company.

2.5 Relocation Assistance. You will be initially located remotely in Midlothian, Virginia until you permanently relocate to the San Francisco Bay Area, home to our head office located at One Park Place, Suite 600, Dublin, CA, 94568, by no later than March 31, 2021. Prior to March 31, 2021, you will consult with the Chief Executive Officer to determine the date for your permanent relocation to the San Francisco Bay Area. You will be entitled to a lump sum payment of Four Hundred Thousand Dollars (\$400,000) to assist with your relocation expenses, less any applicable payroll deductions and all required taxes and withholdings. In the event that you voluntarily terminate your employment with the Company within one year of the Effective Date, you will be responsible for immediate repayment in full to the Company for any relocation assistance amounts described herein and previously reimbursed or paid to you by the Company.

2.5 Company Benefits.

(a) Standard Company Benefits. You will be eligible to participate in the Company's standard employee benefits plans that are available to employees generally, as in effect from time to time, subject to the terms and conditions of such plans.

(b) Severance Benefits. The Chief Executive Officer will recommend to the Committee that you be designated as a participant to the TriNet Group, Inc. Amended and Restated Executive Severance Benefit Plan (the “**Severance Plan**”), a copy of which is attached hereto as Annex A, which shall be the only severance benefits from the Company to which you shall be entitled.

2.6 Expense Reimbursements. For the avoidance of doubt, to the extent that any reimbursements payable by the Company to you under this Agreement or otherwise are subject to the provisions of Section 409A of the Internal Revenue Code of 1986, as amended (the “**Code**”), any such reimbursements will be paid no later than December 31 of the year following the year in which the expense was incurred, the amount of expenses reimbursed in one year will not affect the amount eligible for reimbursement in any subsequent year, and the right to reimbursement will not be subject to liquidation or exchange for another benefit.

3. CONFIDENTIAL INFORMATION. As a condition of your continued employment, you must sign and comply with the Proprietary Information and Invention Agreement attached hereto as Annex B.

4. General Provisions.

4.1 Notices. Any notices provided hereunder must be in writing and will be deemed effective upon the earlier of personal delivery (including, personal delivery, email and facsimile transmission), delivery by express delivery service (e.g. Federal Express), or the third day after mailing by first class mail, to the Company at its primary office location and to Executive at his address as listed on the Company payroll (which address may be changed by either Party by written notice).

4.2 Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, and such invalid, illegal or unenforceable provision will be reformed, construed and enforced in such jurisdiction so as to render it valid, legal, and enforceable consistent with the intent of the parties insofar as possible.

4.3 Waiver. If either Party should waive any breach of any provisions of this Agreement, he or it will not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

4.4 Entire Agreement. This Agreement, including its exhibits, constitutes the entire agreement between Executive and the Company regarding the subject matter hereof. As of the Effective Date, this Agreement supersedes and replaces any and all other agreements, promises, or representations, written or otherwise, between Executive and the Company with regard to this subject matter, including the Previous Agreements. This Agreement is entered into without reliance on any agreement, promise, or representation, other than those expressly contained or incorporated herein, and, except for those changes expressly reserved to the Company's discretion in this Agreement, the terms of this Agreement cannot be modified or amended except in a writing signed by Executive and a duly authorized officer of the Company.

4.5 Counterparts. This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one Party, but all of which taken together will constitute one and the same Agreement. Signatures transmitted via facsimile will be deemed the equivalent of originals.

4.6 Headings and Construction. The headings of the sections hereof are inserted for convenience only and will not be deemed to constitute a part hereof or to affect the meaning thereof. For purposes of construction of this Agreement, any ambiguities will not be construed against either Party as the drafter.

4.7 Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, the Company, and their respective successors, assigns, heirs,

executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company.

4.8 Informing Subsequent Employers. If Executive's employment is terminated, the Company has the right to inform any subsequent employer of Executive's obligations under this Agreement, and can send a copy of these terms of employment to that employer.

4.9 Attorney Fees. If either Party hereto brings any action to enforce his or its rights hereunder, the prevailing Party in any such action will be entitled to recover his or its reasonable attorneys' fees and costs incurred in connection with such action.

4.10 Arbitration. To provide a mechanism for rapid and economical dispute resolution, Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to this Agreement (including the Release) or its enforcement, performance, breach, or interpretation, or arising from or relating to Executive's employment with the Company or the termination of Executive's employment with the Company, will be resolved, to the fullest extent permitted by law, by final, binding, and confidential arbitration held in San Francisco County, California and conducted by JAMS, Inc. ("**JAMS**"), under its then applicable JAMS Employment Arbitration Rules and Procedures. **By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or by administrative proceeding.** Executive will have the right to be represented by legal counsel at any arbitration proceeding at his expense. The arbitrator will: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be available under applicable law in a court proceeding; and (b) issue a written statement signed by the arbitrator regarding the disposition of each claim and the relief, if any, awarded as to each claim, the reasons for the award, and the arbitrator's essential findings and conclusions on which the award is based. The Company will bear all fees for the arbitration, except for any attorneys' fees or costs associated with Executive's personal representation. The arbitrator, and not a court, will also be authorized to determine whether the provisions of this paragraph apply to a dispute, controversy or claim sought to be resolved in accordance with these arbitration procedures. Notwithstanding the provisions of this paragraph, the parties are not prohibited from seeking injunctive relief in a court of appropriate jurisdiction to prevent irreparable harm on any basis, pending the outcome of arbitration. Any awards or orders in such arbitrations may be entered and enforced as judgments in the federal and the state courts of any competent jurisdiction.

4.11 Governing Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California without regard to conflicts of laws principles.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

TRINET USA, INC.

/s/ Burton M. Goldfield

BURTON M. GOLDFIELD
President & Chief Executive Officer

EXECUTIVE

/s/ Kelly Lee Tuminelli

KELLY LEE TUMINELLI

ANNEX A

**TRINET GROUP, INC. AMENDED AND RESTATED EXECUTIVE
SEVERANCE BENEFIT PLAN**

Annex A-1

ANNEX B

PROPRIETARY INFORMATION AND INVENTION AGREEMENT

proprietary Information and Invention Agreement

As part of the consideration for my employment or my continued employment and the compensation now or hereafter paid to me, including, but not limited to, salary, bonus awards, or other type of compensation, I agree as follows:

1. **Maintaining Confidential Company Information.** I will not, during and after my employment with TriNet Group, Inc. or any of its successors, subsidiaries, assigns, related companies, and divisions (collectively, the “Company”), (i) directly or indirectly disclose to any person or entity, or use, except for the sole benefit of the Company, any of the Company’s confidential or proprietary information or trade secrets (collectively, “Company Information”) or (ii) publish or submit for publication, any article or book relating to the Company, its development projects, or other aspects of Company business, without the prior written permission from the Company’s Chief Legal Officer. By way of illustration and not limitation, Company Information shall include the Company’s trade secrets; research and development plans or projects; data and reports; computer materials such as software programs, instructions, source and object code, and printouts; products, prospective products, inventions, developments, and discoveries; data compilations; development databases; business improvements; business plans (whether pursued or not); ideas; budgets; unpublished financial statements; licenses; pricing strategy; cost data; information regarding the skills and compensation of other employees of the Company; the personally identifying protected health information of other employees of the Company, including worksite employees of TriNet customers; lists of current and potential customers of TriNet; marketing strategies, forecasts and other marketing information and techniques; employment and recruiting strategies and processes; sales practices, strategies, methods, forecasts, compensation plans, and other sales information; investor information; and the identities of the Company’s suppliers, vendors, and contractors, and all information about the Company’s relationships with its suppliers, vendors and contractors such as contact person(s), pricing and other terms. The definition of Company Information shall include both “know-how” (i.e., information about what works well) and “negative know-how” (i.e., information about what does not work well). I further acknowledge and recognize that all Company Information is confidential and proprietary and shall remain the exclusive property of the Company. To the extent that I have any question as to whether something constitutes Company Information, I agree to obtain the express written permission of my manager before using or disclosing the information in any way. Notwithstanding the foregoing, I understand that the restrictions on my disclosure or use of Company Information described in this paragraph shall not limit in any way any statutory right I may have to disclose or use information, including but not limited to information about unlawful acts in the workplace such as sexual harassment, pursuant to the National Labor Relations Act (if I am a United States employee) or any other applicable federal, state, or local law.
2. **Third Party Information.** I understand that the Company has in the past received, and in the future may receive from third parties, confidential or proprietary information (“Third Party Information”) subject to a duty on the Company’s part to maintain the confidentiality of such information and to use it only for certain limited purposes. During and after my employment with the Company, I will hold all Third Party Information received by me in the strictest confidence and will not disclose it to anyone (other than Company personnel who need to know such information in connection with their work for the Company) or use it, except in connection with my work for the Company.
3. **No Improper Use of Information of Prior Employers and Others.** During my employment with the Company, I will not improperly use or disclose any confidential information or trade secrets of any former employer or any other person to whom I have an obligation of confidentiality, and I will not bring on to Company premises or equipment any proprietary or confidential information or property belonging to any former employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that former employer or person. I will use in the performance of my duties only information which is generally known and used by persons with training and experience comparable to my own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company.

4. **Return of Company Property.** When I leave the employ of the Company, I will deliver to the Company (and will not keep in my possession, copy, recreate or deliver to anyone else in whole or in part) any and all items including but not limited to files, drawings, notes, notebooks, memoranda, specifications, records, business plans and forecasts, financial information, sales materials, customer and prospective customer lists, reports, programs, proposals, specifications computer-recorded information (including emails), tangible property (including but not limited to laptop/desktop computers, flash drives, CD-ROMs, cell phones, smartphones, tablets and other PDA devices), building entry/access cards, identification badges and keys, devices, and documents, together with all copies thereof (in whatever medium recorded) and any other property or material containing or disclosing Company Information or Third Party Information. I further agree that any property owned by the Company, wherever located, including disks and other storage media, computers, filing cabinets, desks/desk drawers, or lockers, is subject to inspection by Company personnel at any time during my employment and after, with or without notice.
5. **No Conflicting Employment; Solicitation Restrictions.** While employed by the Company, I will not, without the Company's prior written consent, directly or indirectly engage in any employment, consulting, or other activity which creates or is likely to create an actual or a potential conflict of interest with my employment at the Company or conflict with any of my obligations under this Agreement. In addition, during any period in which I am employed by the Company and for a period of one year thereafter, I shall not directly or indirectly, for myself or on behalf of any other person or entity, in any manner or capacity whatsoever, solicit, approach, recruit, interview, offer to hire or attempt to hire, or in any manner endeavor to entice away any person who is employed by or associated with the Company as an employee, independent contractor or agent, nor will I offer to hire or attempt to hire such a person who has been solicited, approached, recruited, or enticed in violation of this provision. Finally, during any period in which I am employed by the Company and for a period of one year thereafter, I shall not directly or indirectly, for myself or on behalf of any other person or entity, whether as an employee, owner, part-owner, shareholder, officer, director, trustee, partner, member, sole proprietor, consultant, agent, representative, or in any other manner or capacity whatsoever, use Company Information to attempt to call on, solicit or take away any clients or prospects of the Company except on behalf of the Company.
6. **Ownership of Discoveries & Results and Proceeds.** Any inventions (whether or not patentable), discoveries, designs, business methods, improvements or works of authorship made by me, alone or jointly with others, and all results and proceeds of my services to the Company ("Results and Proceeds") at any time during my employment by the Company which are made, conceived, reduced to practice or learned by me in the course and scope of my employment or with the use of the Company's time, property (whether tangible or intangible), materials or facilities, or relating to any subject matter with which my work for the Company is concerned, are hereby irrevocably and unconditionally assigned to the Company for its benefit and shall be the exclusive property of the Company. Any copyrightable subject matter included in the Results and Proceeds shall be "works made for hire" as that phrase is defined in the Copyright Act of 1976 (17 U.S.C. 101 et seq.). If it is ever determined that any Results and Proceeds cannot be considered "works made for hire" or otherwise cannot be fully assigned to the Company under applicable law, I hereby grant to the Company in perpetuity and on an exclusive and irrevocable basis all worldwide rights of every kind and nature, whether now known or hereafter recognized, in and to such Results and Proceeds to the maximum extent permitted by applicable law. Without limitation of the foregoing, the Company has the exclusive right to obtain and own all patents and copyright registrations with respect to such Results and Proceeds. Neither the expiration nor the termination of this Agreement shall affect the Company's ownership of or rights in the Results and Proceeds or any intellectual property rights therein. To facilitate the determination of whether any invention, discovery, designs, business methods, improvement or work of authorship is properly transferable to the Company, I will promptly advise it of all inventions, discoveries, improvements or works of authorship made, conceived, reduced to practice or learned by me during the term of my employment and for six months after termination of my employment. I understand that my obligations under this paragraph 6 do not apply to any invention that qualifies fully as a non-assignable invention under any law of any jurisdiction, in each case, to the extent applicable to my inventions. I have completed **Exhibit A**, which lists all inventions, improvements and other works ("Pre-existing Work") that I have alone or jointly with others, conceived, developed, reduced to practice prior to the commencement of my employment with the Company, that I consider to be my property or the property of third parties.

I hereby represent and warrant that there is no Pre-existing Work other than as set forth in Exhibit A. If Exhibit A is not completed in full, and included herein, there is no Pre-existing Work for which I claim ownership. I agree that I will not incorporate any Pre-existing Work into any Company works without first obtaining the express, written approval of the Company in each case. To the extent that I incorporate any Pre-existing Work into any Company works, I hereby represent and warrant that I have all necessary rights and authority to do so and hereby grant to Company the perpetual, irrevocable, non-exclusive, worldwide, royalty-free and sublicensable right to use and exploit such Pre-existing Work for any and all purposes in connection with the Company's and its affiliates' and their respective successors' and assigns' current and future businesses.

For Canadian employees only: I certify that I have read and completed the Acknowledgment and Waiver attached as **Exhibit B**.

7. **Perfection and Enforcement of Proprietary Rights.** I will assist the Company in every proper way at the Company's request and direction to obtain, perfect and enforce United States, Canadian and foreign patent, copyright, mask work and other intellectual property rights ("Proprietary Rights") relating to Company Information and/or Results and Proceeds in any and all countries. Without limiting the generality of the foregoing, I will execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Proprietary Rights and the assignment thereof. My obligation to assist the Company pursuant to this paragraph 7 shall continue following the termination of my employment, but the Company shall compensate me at a reasonable rate to be determined by the Company consistent with its ordinary practices after my termination for the time actually spent by me at the Company's request for such assistance. If the Company or its designee is unable because of my mental or physical incapacity or unavailability or for any other reason to obtain my signature for any document required by this paragraph 7, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact, to act for and in my behalf and stead to execute and file any such documents with the same legal force and effect as if originally executed by me, and I declare that this power of attorney shall be deemed to be coupled with an interest and irrevocable, and may be exercised during any subsequent legal incapacity.
8. **No Continued Employment; Exit Interview.** I understand that my employment with the Company is at-will and that this Agreement does not confer any right of continued employment by the Company and does not limit in any way the Company's right or my right to terminate my employment at any time, with or without cause. In the event my employment with the Company terminates for any reason, I will, if requested, participate in an exit interview with the Company and reaffirm in writing my obligations as set forth in this Agreement. I agree to provide the Company with the name and address of my new employer, and consent to the Company's notification to my new employer of my rights and obligations under this Agreement.
9. **Legal and Equitable Remedies.** I recognize that my violation of this Agreement exposes the Company to irreparable harm and that the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief, without bond, and without prejudice to any other rights and remedies (including recovery of monetary damages) that the Company may have for a breach of this Agreement.
10. **Entire Agreement.** This Agreement sets forth the final, complete and exclusive agreement and understanding between the Company and me relating to the subject matter hereof and supersedes all prior agreements, promises, representations or inducements between the Company and me that concern the subject matter of this Agreement. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing signed by the party to be charged.
11. **Severability.** If one or more of the provisions in this Agreement are deemed unenforceable by law, then the remaining provisions will continue in full force and effect. Moreover, if any one or more of the provisions contained in this Agreement shall be held to be excessively broad or partially invalid, illegal or unenforceable, it shall be construed by

limiting and reducing it so as to be enforceable to the extent compatible with the applicable law as it shall then appear. I agree that a court may rewrite, revise, or edit this Agreement to make it enforceable.

12. **Successors and Assigns.** This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company and its successors and its assigns.
13. **Survival.** The provisions of this Agreement shall survive the termination of my employment, regardless of the reason for the termination, and the assignment of this Agreement by the Company to any successor in interest or other assignee.
14. **Waiver.** No waiver by the Company of any breach of this Agreement shall be a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement shall be construed as a waiver of any other right. The Company shall not be required to give notice to enforce strict adherence to all terms of this Agreement.
15. **Change in Employment.** I agree that any subsequent change in my duties, title, salary or compensation will not affect in any respect the validity, enforceability, or scope of this Agreement.
16. **Trade Secrets Act.** Pursuant to the Defend Trade Secrets Act, I understand that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (a) is made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney, and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. Further, I understand that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the employer's trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (a) files any document containing the trade secret under seal and (b) does not disclose the trade secret, except pursuant to court order.
17. **Exception to Confidentiality.** Notwithstanding anything in this Agreement or otherwise, I understand that I have the right under federal law to certain protections for cooperating with or reporting legal violations to the Securities and Exchange Commission (the "SEC") and/or its Office of the Whistleblower, as well as certain other governmental authorities and self-regulatory organizations, and as such, nothing in this Agreement or otherwise is intended to prohibit me from disclosing this Agreement to, or from cooperating with or reporting violations to, the SEC or any other such governmental authority or self-regulatory organization, and I may do so without notifying the Company. The Company may not retaliate against me for any of these activities, and nothing in this Agreement or otherwise would require me to waive any monetary award or other payment that I might become entitled to from the SEC or any other governmental authority.
18. **Governing Law.** This Agreement is governed by the laws of the jurisdiction in which you primarily perform work for TriNet, without regard to conflicts of law principles.

I HAVE READ THIS AGREEMENT CAREFULLY and completed and executed Exhibit A (and Exhibit B if I am a Canadian employee). I UNDERSTAND and agree to the terms of this Agreement.

EMPLOYEE SIGNATURE: /s/ Kelly Lee Tuminelli

DATE: August 10, 2020

EXHIBIT A

TO: TriNet Group, Inc. and its subsidiaries, related companies and divisions

SUBJECT: Previous Inventions, Improvements, Creations or Works

1. Except as listed in Section 2 below, the following is a complete list of all inventions, improvements, creations or works that have been made or conceived or first reduced to practice by me alone or jointly with others prior to my engagement by the Company. **If I have no inventions to report, I will check the box marked “No Inventions to Report” below:**

☐ Additional sheets attached.

☒ No Inventions to Report

2. Due to a prior confidentiality agreement, I cannot complete the disclosure in Section 1 above. Instead, I list the inventions, improvements or works generally, and the party(ies) to whom I owe proprietary rights and a duty of confidentiality. **If I have no inventions to report, I will check the box marked “No Inventions to Report” below:**

	Inventions, Improvements, Creations or Works	Parties	Relationship
1.			
2.			
3.			
4.			

☐ Additional sheets attached.

☒ No Inventions to Report

I HEREBY REPRESENT AND WARRANT that the contents of this Exhibit A are truthful, accurate and complete.

EMPLOYEE SIGNATURE: /s/ Kelly Lee Tuminelli

DATE: August 10, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Burton M. Goldfield, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TriNet Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2020

/s/ Burton M. Goldfield

Burton M. Goldfield

President and Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael P. Murphy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TriNet Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2020

/s/ Michael P. Murphy

Michael P. Murphy

Principal Financial and Accounting Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of TriNet Group, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the period ending September 30, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification (i) is given to such officers' knowledge, based upon such officers' investigation as such officers reasonably deem appropriate; and (ii) is being furnished solely pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002) and is not being filed as part of the Report or as a separate disclosure document and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

Date: October 26, 2020

/s/ Burton M. Goldfield

Burton M. Goldfield

Chief Executive Officer

Date: October 26, 2020

/s/ Michael P. Murphy

Michael P. Murphy

Principal Financial and Accounting Officer