TRINET GROUP INC
Form 10-K
February 14, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2018
or
o 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	95-3359658
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Park Place, Suite 600, Dublin, CA	94568
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value $0.000025 Per Share; Common stock traded on the New York Stock Exchange.
Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically 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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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 o No o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The New York Stock Exchange on June 30, 2018, was $2.5 billion.

The number of shares of Registrant’s Common Stock outstanding as of February 7, 2019 was 70,170,155.

Portions of the Registrant’s Definitive Proxy Statement to be issued in connection with its Annual Meeting of Stockholders, scheduled to be held on May 9, 2019, are incorporated by reference into Part III of this Form 10-K.

TRINET GROUP, INC.
Form 10-K - Annual Report
For the Year End December 31, 2018

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GLOSSARY

Glossary of Acronyms and Abbreviations

Acronyms and abbreviations are used throughout this report, particularly in Part I, Item 1. Business; Part 1, Item 1A. Risk Factors; Part II, Item 7. MD&A; Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Part II, Item 8. Financial Statements and Supplementary Data.

ACA	The Patient Protection and Affordable Care Act
ACH	Automated Clearinghouse Transaction
AFS	Available-for-sale
ASC	Accounting standards codification
ASU	Accounting standards update
CCPA	California Consumer Privacy Act of 2018
COBRA	Consolidated Omnibus Budget Reconciliation Act
COPS	Cost of providing services
COSO	Committee of Sponsoring Organizations of Treadway Commission
DOL	U.S. Department of Labor
EBITDA	Earnings before interest expense, taxes, depreciation and amortization of intangible assets
EPLI	Employment Practices Liability Insurance
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act of 1974
ESAC	Employer Services Assurance Corporation
ESPP	Employee stock purchase plan
ETR	Effective tax rate
FASB	Financial Accounting Standards Board
G&A	General and administrative
GAAP	Generally Accepted Accounting Principles in the United States
HIPAA	Health Insurance Portability and Accountability Act of 1996
HITECH Act	Health Information Technology for Economic and Clinical Health Act of 2009
HR	Human Resources
IBNP	Incurred but not yet reported
IBNR	Incurred but not reported
IGP	Indemnity Guarantee Payment
IRS	Internal Revenue Service
ISR	Insurance service revenues
LDF	Loss development factor
LIBOR	London Inter-bank Offered Rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
NISR	Net Insurance Service Revenues
NSR	Net service revenues
OE	Operating expenses
PCAOB	Public Company Accounting Oversight Board
PEO	Professional Employer Organization
PFC	Payroll funds collected
PHI	Protected Health Information
PSR	Professional service revenues

GLOSSARY

RSA	Restricted Stock Award
RSU	Restricted Stock Unit
SBC	Stock Based Compensation
S&M	Sales and marketing
S&P 500	Standard and Poor's 500 Stock Index
SD&P	Systems development and programming
SEC	Securities and Exchange Commission
SMB	Small to midsize business
SOX	Sarbanes-Oxley Act of 2002
TCJA	Tax Cuts and Jobs Act of 2017
U.S.	United States
UTP	Uncertain tax position
WSE	Worksite employee

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Cautionary Note Regarding Forward-Looking Statements

For purposes of this Annual Report, the terms “TriNet,” “the Company,” “we,” “us” and “our” refer to TriNet Group, Inc., and subsidiaries. This Annual Report on Form 10-K (Form 10-K) 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,” “intend,” “may,” “outlook,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “strategy,” “target,” “value,” “will,” “w expressions or variations intended to identify forward-looking statements. Examples of forward-looking statements include, among others, TriNet’s expectations regarding: the growth of our customer base, our ability to roll out additional offerings as and when planned, our planned improvements to our technology platform, our ability to drive operating efficiencies and improve the customer experience, the impact of any future changes to health care regulations, our ability and intention to pursue strategic acquisitions, the possibility and impact of future competitors entering our industry, our ability to execute on our vertical market strategy, the impact of our vertical approach, metrics that may be indicators of future financial performance, 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 ability to penetrate the market for human resources (HR) solutions for small to midsize businesses, our investment strategy and its impact on our ability to generate future interest income, net income, and Adjusted EBITDA, the types of cyber security threats we may face, insurance cost variability, seasonal trends and variability, fluctuations in the period-to-period timing of when we incur certain operating expenses, and other expectations, outlooks and forecasts on our future business, operational and financial performance.

Forward-looking statements are not guarantees of future performance, but are based on management’s expectations as of the date of this Form 10-K 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.

Important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements are discussed throughout this Form 10-K, including those appearing under Part I, Item 1A. Risk Factors, and Part II, Item 7. MD&A, as well as in our periodic filings with the SEC. Those factors could cause our actual results to differ materially from our anticipated results.

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

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PART I

Item 1. Business

TriNet is a leading provider of HR expertise, payroll services, employee benefits and employment risk mitigation services for SMBs. Since our founding in 1988, TriNet has served, and continues to serve, thousands of SMBs. For the year ended December 31, 2018, we processed $37.7 billion in payroll and payroll taxes for our clients and ended 2018 with approximately 16,900 clients with about 325,600 WSEs primarily in 48 states, the District of Columbia, and in Canada.

Our Products and Services

We deliver a comprehensive suite of products and services, which allows our clients to administer and manage various HR-related functions, 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 specific HR experience to design product and service offerings for SMBs in specific industries. We believe our industry-specific 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 the common HR needs in different client industries. For example, in 2018 we launched TriNet Professional Services to better support consulting, advertising, and other expertise-driven industries. As of December 31, 2018, we offer six industry-tailored vertical products, TriNet Financial Services, TriNet Life Sciences, TriNet Nonprofit, TriNet Technology, TriNet Main Street, and TriNet Professional Services.

Our comprehensive HR products and solutions include the following common capabilities:

HR EXPERTISE	ACCESS TO BENEFITS	PAYROLL SERVICES	RISK MITIGATION	TECHNOLOGY PLATFORM

HR Expertise

We use the collective insights and experience of our teams of HR, benefits, risk management and compliance professionals to help clients manage many of the administrative, regulatory and practical requirements associated with being employers. Our HR professionals and services help clients address a variety of HR issues, including employee onboarding and terminations, benefits enrollment and support, immigration and visa support, and support for certain types of tax credits. Depending on their needs, our clients and WSEs have access to varying levels of service and support from our HR professionals ranging from call center support for basic questions, to pooled HR resources, to onsite consulting and services. Our HR professionals also provide additional specialized HR consulting and services upon request.

Access to Benefits

We utilize our size and scale to provide our clients and WSEs access to a broad range of cost-effective, TriNet-sponsored employee benefit and insurance programs at a value that we believe most of our clients would be unable to obtain on their own. Our benefit and insurance programs are designed to comply with state, local, and federal regulations, and our benefit and insurance service offerings include plan design and administration, enrollment management, leave management, plan document distribution and WSE and client communications.

Under our benefit and insurance programs, we pay third-party insurance carriers for WSE insurance benefits and reimburse insurance carriers or third-party administrators for claims payments within our insurance deductible layer, where applicable.

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We sponsor and administer several fully insured employee benefit plans through a broad range of carriers, including group health, dental, vision, short- and long-term disability, and life insurance as an employer plan sponsor under Section 3(5) of ERISA. We also offer other benefit programs to our WSEs, including flexible spending accounts, health savings accounts, retirement benefits, COBRA benefits, individual life insurance, commuter benefits, home insurance, critical illness insurance, accident insurance, hospital indemnity, pet insurance, and auto insurance. For further discussion of our fully insured programs including policies where we reimburse our carriers for certain amounts relating to claims, refer to Note 1 in Part II, Item 8. Financial Statements and Supplementary Data, of this Form 10-K.

Payroll Services

We help clients manage all aspects of their employee compensation by providing multi-state payroll processing and tax administration services and other payroll-related services, such as time and attendance management, time off and overtime tracking, and expense management solutions. Our clients and WSEs can access payroll and tax information and carry-out a variety of common HR transactions using our online and mobile tools. Our tax administration services include calculating, withholding and reporting certain federal, state and local payroll and unemployment taxes on behalf of clients and WSEs.

Risk Mitigation

Our HR professionals monitor employment-related regulatory developments at the local, state and federal levels to help our clients comply with employment laws and mitigate many of the risks associated with being an employer. Using our HR experience, we are able to provide guidance on a variety of employment regulations, from state and local laws like minimum wage, unemployment insurance, family and medical leave laws and anti-discrimination laws, to federal laws like the ACA.

We provide fully insured workers' compensation insurance coverage for our clients and WSEs through insurance policies that we negotiate with our third-party insurance carriers. We manage the deductible risk that we assume in connection with these policies by being selective in the types of businesses that we take on as new clients, and by monitoring claims data and the performance of our carriers and third-party claims management services and vendors. In addition, we advise clients on workers’ compensation best practices, including by performing workplace assessment consultations and assisting with client efforts to identify conditions or practices that might lead to employee injuries.

We also provide EPLI coverage for our clients through insurance policies that we obtain from a third-party EPLI carrier. These policies provide coverage for certain claims that arise in the course of the employment relationship, such as discrimination, harassment, and certain other employee claims, with a per-claim retention amount. The retention amount is split between the client and TriNet, with the client generally paying its portion of the retention amount first.

While we do not provide legal representation to our clients, our clients can benefit from the extensive experience of our employment law specialists and HR professionals who assist clients in implementing HR best practices to avoid employment practices liability claims to manage, process and respond to such claims. For claims covered by our EPLI, actual litigation defense is conducted by outside employment law firms with whom we and our EPLI carriers have previously negotiated rates, established billing guidelines and invoice review processes. We have also developed a case management protocol to efficiently and effectively defend such claims.

Technology Platform

Our technology platform includes online and mobile tools that allow our clients and WSEs to store, view, and manage core HR information and administer a variety of HR transactions, such as payroll processing, tax administration, employee onboarding and termination, compensation reporting, expense management, and benefits enrollment and administration. In 2018, we continued to make significant investments in our technology platform to provide our users with improved functionality and HR management options, and we continued to retire legacy technology inherited from acquisitions. We intend to continue to invest in our technology platform to improve its functionality, ease of use and the overall user experience for our clients and WSEs. We believe the continued investment in and improvement of our technology platform will drive operating efficiencies and improve the customer experience.

We invested approximately $81 million, $74 million and $53 million, during 2018, 2017 and 2016, respectively, developing our technology platform.

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Our Co-Employment Model

We operate using a co-employment model, under which employment-related responsibilities are allocated by contract between us and our clients. This model allows WSEs to receive the full benefit of our services, including access to our sponsored employee benefit plan offerings. Each of our clients enters into a client service agreement with us that defines the suite of professional and insurance services and benefits to be provided by us, the fees payable to us, and the division of responsibilities between us and our clients as co-employers. The division of responsibilities under our client service agreements is typically as follows:

TriNet Responsibilities

We generally assume responsibility for, and manage certain risks associated with:

- remittance to WSEs of salaries, wages and certain other compensation (as reported and paid to us by our client), related tax reporting and remittance to tax authorities, and processing of garnishment and wage deduction orders. Unlike a payroll service provider, we pay WSEs from our own bank accounts,
- reporting of wages, withholding and deposit of associated payroll taxes as the employer for regulatory reporting and payroll tax returns,
- provision and maintenance of workers' compensation insurance and workers' compensation claims processing,
- provision of access to, and administration of, group health, welfare, and retirement benefits to WSEs under TriNet-sponsored insurance plans,
- compliance with applicable law for certain employee benefits offered to WSEs,
- processing of unemployment claims, and
- provision of certain HR policies, including an employee handbook describing the co-employment relationship.

Client Responsibilities

Our clients are responsible for employment-related responsibilities that we do not specifically assume, generally including:

- day-to-day management of their worksites and WSEs,
- compliance with laws associated with the classification of employees as exempt or non-exempt, such as overtime pay and minimum wage law compliance,
- accurate and timely reporting to TriNet of compensation and deduction information, including information relating to hours worked, rates of pay, salaries, wages and certain other compensation,
- accurate and timely reporting to TriNet of information relating to workplace injuries, employee hires and termination, and certain other information relevant to TriNet’s services,
- provision and administration of any employee benefits not provided by TriNet such as equity incentive plans,
- compliance with all laws and regulations applicable to the clients' workplace and business, including work eligibility laws, laws relating to workplace safety or the environment, laws relating to family and medical leave, laws pertaining to employee organizing efforts and collective bargaining and employee termination notice requirements,
- payment of TriNet invoices, which include salary, wages and other relevant compensation to WSEs and applicable employment taxes and service fees, and
- all other matters for which TriNet does not assume responsibility under the client service agreement, such as intellectual property ownership and protection and liability for products produced and services provided by the client company to its own customers.

As a result of our co-employment relationship with each of our WSEs, we are liable for payment of salary, wages and certain other compensation to the WSEs as reported and paid to us by the client, and are responsible for providing specified employee benefits to such persons to the extent provided in each client service agreement and under federal and state law. In most instances, clients are required to remit payment prior to the applicable payroll date by wire transfer or ACH.

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We also assume responsibility for payment and liability for the withholding and remittance of federal and state income and employment taxes with respect to salaries, wages and certain other compensation paid to WSEs, although we reserve the right to seek recourse against our clients for any liabilities arising out of their conduct. We perform these functions as the statutory employer for federal employment tax purposes, since our clients transfer legal control over these payroll functions to us. The laws that govern the payment of salaries, wages and related payroll taxes for our WSEs are complex and the various federal, state and local laws that govern such payments can have significant differences. For example, except to the extent applicable federal and state laws otherwise provide, the client may be held ultimately liable for those obligations if we fail to remit taxes and the bonding security provided by the ESAC or other surety is not sufficient to satisfy the obligation.

Sales and Marketing

Our Sales Organization

We sell our solutions primarily through our direct sales organization. We have aligned our sales organization by industry vertical with the goal of growing profitable market share in our targeted industries. This vertical approach deepens our network of relationships and gives us an understanding of the unique HR needs facing SMBs in those industries. Our sales representatives are supported by marketing, inside sales, lead generation efforts, and referral networks.

We sponsor and participate in associations and events around the country and utilize these forums to target specific vertical and geographic markets. We also generate sales opportunities within key industry verticals, through marketing alliances and other indirect channels, such accounting firms, venture capital firms, incubators, insurance brokers, and other vertical market industry associations. Additionally, we utilize digital marketing programs, including digital advertising, search and email marketing, to create awareness and interest in our products.

Our Marketing Organization

Our marketing organization is charged with driving overall brand awareness, managing lead generation, creating and managing our website and other online properties, creating content for all of our outbound and inbound marketing efforts, media relations, and managing our sponsorships, major marketing events, and client communications. In 2018 our marketing team focused on strategic marketing, communications and branding initiatives, in part by launching a comprehensive company re-branding and marketing campaign that included social media and advertising across digital, television, radio and out-of-home media.

Legal and Regulatory

Our business operates in a complex environment of numerous federal, state and local laws and regulations relating to our solutions. The following summarizes what we believe are the most important legal and regulatory aspects of our business:

Federal Regulations

Employer Status

We sponsor our employee benefit plan offerings as the employer of our WSEs under the Internal Revenue Code of 1986, as amended (the Code), and ERISA. The multiple definitions of “employer” under both the Code and ERISA are not clear and most are defined in part by complex multi-factor tests under common law. We believe that we qualify as an “employer” of our WSEs in the U.S. under both the Code and ERISA, as well as various state regulations, but this status could be subject to challenge by various regulators. For additional information on our employer status and its impact on our business and results of operations, refer to Part I, Item 1A. Risk Factors, of this Form 10-K, under the heading - If we are not recognized as an employer of worksite employees under federal and state regulations, or are deemed to be an insurance agent or third-party administrator, we and our clients could be adversely impacted.

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The ACA and Health Care Reform

The ACA was signed into law in March 2010. The ACA implemented sweeping health care reforms with staggered effective dates from 2010 through 2020, and many provisions in the ACA still require the issuance of additional guidance from the DOL, the IRS, the U.S. Department of Health and Human Services and various U.S. states. Passage of the TCJA in December 2017 eliminated the individual mandate tax penalty under the ACA beginning in 2019, while retaining employer ACA obligations. Further significant changes to health care statutes, regulations and policy at the federal, state and local levels could occur in 2019 and beyond, including the potential further modification, amendment or repeal of the ACA. For additional information on the ACA and its impact on our business and results of operations, refer to Part I, Item 1A. Risk Factors, of this Form 10-K, under the heading - Our business is subject to numerous complex state and federal laws, and changes in, uncertainty regarding, or adverse application of these laws could adversely affect our business.

HIPPA

Maintaining the security of our WSEs information is important to TriNet as we sponsor employee benefit plans and may have access to personal health information (PHI) of our WSEs. The manner in which we manage PHI is subject to HIPAA and the HITECH Act. HIPAA contains restrictions and health data privacy, security and breach notification requirements with respect to the use and disclosure of PHI. Further, under the HITECH Act there are penalties and fines for HIPAA violations. Our health plans are covered entities under HIPAA, and we are therefore required to comply with HIPAA's portability, privacy, and security requirements.

To the extent possible, the health claim information we possess is anonymized and accessed through a secured third-party database. For additional information on the security of our clients' and WSEs' personal data and PHI and the potential impact to our business if we fail to protect such personal data and PHI, refer to Part I, Item 1A. Risk Factors, of this Form 10-K, under the heading - Cyber-attacks or security breaches could result in reduced revenue, increased costs, liability claims, regulatory penalties, and damage to our reputation.

U.S. State Regulations

Forty-four states have adopted provisions for licensing, registration, certification or recognition of co-employers, and others are considering such regulation. Such laws vary from state to state but generally provide for monitoring or ensuring the fiscal responsibility of PEOs, and in some cases codify and clarify the co-employment relationship for unemployment, workers' compensation and other purposes under state laws. We believe we are in compliance in all material respects with the requirements in those forty-four states.

We must also comply with state unemployment tax requirements where our clients are located. State unemployment taxes are based on taxable wages and tax rates assigned by each state. The tax rates vary by state and are determined, in part, based on our prior years’ compensation and unemployment claims experience in each state. Certain rates are also determined, in part, by each client’s own compensation and unemployment claims experience. In addition, states have the ability under law to increase unemployment tax rates, including retroactively, to cover deficiencies in the unemployment tax funds.

We must also comply with general state tax laws, including payroll tax laws. Continued tax reform efforts may lead to significant state tax law changes in 2019 and beyond.

Strategic Acquisitions

Historically, we have pursued strategic acquisitions to both expand our product capabilities and supplement our growth across geographies and certain industry verticals. Our acquisition targets have included PEOs and other HR solution providers as well as technology companies or technology product offerings to supplement or enhance our existing HR solutions. We intend to continue to pursue strategic acquisitions, where appropriate, that will enable us to add new clients and WSEs, expand our presence in certain geographies or industry verticals and offer our clients and WSEs more attractive products and services.

Client Industries and Geographies

Our clients are distributed across a variety of industries, including technology, life sciences, not-for-profit, professional services, financial services, property management, retail, manufacturing, and hospitality. Our clients execute annual service contracts with us that automatically renew. Generally, our clients may cancel these contracts with thirty days'

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notice and we may cancel these contracts with thirty days' notice.

We conduct our business primarily in the United States, with more than 99% of our total revenues being attributable to WSEs in the United States and its territories with the remainder being attributable to WSEs in Canada. Substantially all our long-lived assets are located in the United States.

Seasonality

Our business is affected by seasonality in client business activity and WSE product selection. In addition, the timing of benefits open enrollment periods and utilization of medical services above each WSE's deductible causes variation in our quarterly results. Finally, clients generally change their payroll service providers at the beginning of the payroll tax year; as a result, we have historically experienced our highest volumes of new and exiting clients in the month of January.

Competition

We face competition from:

- PEOs that compete directly with us,
- HR and information systems departments and personnel of companies that administer employee benefits, payroll and HR for their companies in-house,
- providers of certain endpoint HR services, including payroll, employee benefits, business process outsourcers with high-volume transaction and administrative capabilities, and other third-party administrators,
- employee benefit exchanges that provide benefits administration services over the Internet to companies that otherwise maintain their own employee benefit plans, and
- insurance brokers who allow third-party HR systems to integrate with their technology platform.

Our competitors include large PEOs such as the TotalSource unit of Automatic Data Processing, Inc., the PEO operations of Paychex, Inc. and Insperity, Inc., as well as specialized and smaller PEOs and similar HR service providers with PEO operations. To the extent that we and other companies providing these services are successful in growing our businesses, we anticipate that future competitors will enter this industry.

We believe that our services are attractive to many SMBs in part because of our ability to provide access to a broad range of TriNet-sponsored workers' compensation, health insurance and other benefits programs on a cost-effective basis. We compete with insurance brokers and other providers of this coverage in this regard, and our offerings must be priced competitively with those provided by these competitors in order for us to attract and retain our clients.

We believe that we compete based upon the breadth and depth of our benefit plans, vertical market expertise, total cost of service, brand awareness and reputation, ability to innovate and respond to customer needs rapidly, access to online and mobile solutions, and subject matter expertise. We believe that we are competitive across these factors. For additional information about our competition, please refer to Part I, Item 1A. Risk Factors, of this Form 10-K, under the heading - Our reputation could suffer and our business could be adversely affected if our products do not perform, and our services are not delivered, as expected by our clients and WSEs.

Intellectual Property

We own or license from third parties various computer software, as well as other intellectual property rights, used in our business. Generally, we protect our intellectual property rights through the use of confidentiality and non-disclosure agreements and policies with our employees and third-party partners and vendors. We also own registered trademarks in the United States, Canada and the European Union covering our name and other trademarks and logos that we believe are materially important to our operations.

Corporate Employees

We refer to our employees that are not co-employed with our clients as our corporate employees. We had approximately 3,100 corporate employees as of December 31, 2018. Our corporate employees are not covered by a collective bargaining agreement.

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Corporate and Other Available Information

We were incorporated in 1988 as TriNet Employer Group, Inc., a California corporation. We reincorporated as TriNet Merger Corporation, a Delaware corporation, in 2000 and during that year changed our name to TriNet Group, Inc. Our principal executive office is located at One Park Place, Suite 600, Dublin, CA 94568 and our telephone number is (510) 352-5000. Our website address is www.trinet.com. Information contained in or accessible through our website is not a part of this report.

On the Investor Relations page of our Internet website at http://www.trinet.com, we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Alternatively, the public may access these reports at the SEC's internet site at www.sec.gov. The contents of these websites are not incorporated into this report and are not part of this report.

RISK FACTORS

Item 1A. Risk Factors

Our business is subject to numerous complex laws, and changes in, uncertainty regarding, or adverse application of these laws could negatively affect our business.

The products and services we provide to our clients are subject to numerous complex federal, state and local laws and regulations, including those described in Part I, Item 1. Business, of this Form 10-K. Many of these laws (such as ERISA, the ACA, other federal and state employee benefit laws, workers' compensation laws, employment tax laws, worksite safety laws, insurance and banking laws, wage and hour laws, anti-discrimination laws, and laws specific to the industries of our clients) do not specifically address PEOs or co-employment relationships, which can lead to unpredictable application, regulatory interpretation and discretion in enforcement at the federal, state and local levels in relation to our business.

In addition, new laws, changes in existing laws, or adverse application or interpretation of new or existing laws, whether they apply to employers generally or specifically to PEOs or our co-employment relationships with our WSEs, could reduce or eliminate the need for, or value and benefit provided by, some or all of the products and services we provide, and/or require us to make significant changes to our methods of doing business and providing products and services, including providing additional customer and WSE disclosures. Any such new laws, changes in laws or adverse application or interpretation of laws could also affect the extent and type of employee benefits employers and co-employers can or must provide employees, the amount and type of taxes employers, co-employers and employees are required to pay, or the time within which employers and co-employers must remit taxes to applicable tax authorities. The laws that apply in our industry and to employers and co-employers have and could be changed, replaced or interpreted in a manner adverse to our operations and we are not able to predict the occurrence, direction or ultimate impact of these events. Any such new laws, change in laws or adverse application or interpretation of laws could have material adverse effect on our financial condition and results of operations.

Changes to and continued uncertainty regarding the implementation and future of health care reform in the United States, including under the ACA, any successor to the ACA, or related or similar state and local laws, has the potential to substantially change the health insurance market for SMBs and how such employers provide health insurance to their employees, which could have a materially adverse effect on our ability to attract and retain our clients. For example, the elimination of the ACA individual mandate tax penalty beginning in 2019 may reduce the number of WSEs who participate in our insurance programs. Significant changes could be made to the ACA in 2019 and beyond, including the potential modification, amendment or repeal of the ACA. Changes to federal health care laws, including the ACA, could also result in new or amended laws being introduced at the state or local level. Our ability to comply with, and adapt our product offerings to take advantage of, any such changes could require significant additional costs and divert management attention, which could result in a material adverse effect on our financial condition and results of operations.

Similarly, changes to federal, state and local laws regarding other traditional employee benefits, such as retirement benefits, also have the potential to substantially change the types of benefit programs that are available to SMBs and that may be offered by PEOs. For example, proposed rule changes by the DOL may make available "open multiple employer plans" for retirement benefits, which plans may compete with the benefit plans we provide. The availability of alternative employee benefit plans for SMBs, or any reduction in the types of plans that we can offer our clients, could have a material adverse effect on our financial condition and results of operations.

If we are not recognized as an employer of worksite employees under federal and state regulations, or are deemed to be an insurance agent or third-party administrator, we and our clients could be adversely impacted.

In order to sponsor our employee benefit plan offerings for WSEs, we must qualify as an employer of WSEs for certain purposes under the Code and ERISA. In addition, our status as an employer is important for purposes of ERISA’s preemption of certain state laws. The definition of employer under various laws is not uniform, and under both the Code and ERISA, the term is defined in part by complex multi-factor tests.

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Generally, these tests are designed to evaluate whether an individual is an independent contractor or employee and they provide substantial weight to whether a purported employer has the right to direct and control the details of an individual's work. Some factors that the IRS has considered important in the past in evaluating this issue have included the employer's degree of behavioral control (for example the extent of instructions, training and evaluation of the work), financial control and the economic aspects of the work relationship, the type of relationship, as evidenced by the specific contract, if any, whether employee benefits are provided, whether the work is indefinite in duration or project-based, and whether it is a regular part of the employer's business. However, a definitive judicial interpretation of "employer" in the context of PEOs has not been established. For ERISA purposes, for example, courts have held that test factors relating to the ability to control and supervise an individual are less important, while the DOL has issued guidance that certain entities in the HR outsourcing industry do not qualify as common law employers for ERISA purposes. Although we believe that we qualify as an employer of WSEs under ERISA and the DOL has not provided guidance otherwise, we are not able to predict the outcome of any regulatory challenge.

If we were found not to be an employer for ERISA purposes, it could adversely affect the manner in which we are able to provide employee benefits to WSEs. Similarly, to qualify for favorable tax treatment under the Code, certain employee benefit plans, such as 401(k) retirement plans and cafeteria plans must be established and maintained by an employer for the exclusive benefit of its employees. All of our 401(k) retirement plans are operated pursuant to guidance provided by the IRS and we have received favorable determination letters from the IRS confirming the qualified status of these plans. However, the IRS uses its own complex, multi-factor test to ascertain whether an employment relationship exists between a worker and a purported employer. Although we believe that we qualify as an employer of WSEs under the Code, we cannot assure you that the IRS will not challenge our position or continue to provide favorable determination letters. Moreover, the IRS' 401(k) guidance and qualification requirements are not applicable to the operation of our cafeteria plans.

If we are not recognized as an employer under the Code or ERISA, we may be required to change the method by which we report and remit payroll taxes to the tax authorities and the method by which we provide, or discontinue providing, certain employee benefits to WSEs. Such changes could have a material adverse effect on our business and results of operations.

We must also qualify as co-employers of WSEs and comply with state licensing, certification and registration requirements for the regulation of PEOs. Forty-four states have passed such laws and other states may implement such requirements in the future. While we believe that we satisfy these state regulations, these requirements vary from state to state, they can and have changed frequently with varying degrees of impact on our operations. If we are not able to satisfy existing or future licensing requirements or other applicable regulations in any state, we may be prohibited from doing business in that state, including having any clients within that state.

In addition, state regulatory authorities generally impose licensing requirements on companies acting as insurance agents or third-party administrators, such as those that handle health or retirement plan funding and claim processing. We do not believe that our current activities require such licensing, but we and others in our industry have received inquiries from regulatory authorities in the past and could receive them in the future. If regulatory authorities in any state determine that we are acting as an insurance agent, third-party administrator, we may need to hire additional personnel to manage regulatory compliance and pay annual regulatory fees, which could have a material adverse effect on our financial condition and results of operations.

Our co-employment relationship with our worksite employees exposes us to business risks.

We are the co-employer of our WSEs. As the co-employer of our WSEs, we assume certain risks and obligations of an employer. For instance, we face the risk of providing access to health benefits to our WSEs even if the cost of providing benefits exceeds the fees received from our clients. However, the extent of our responsibility for other aspects of our co-employer relationship with our WSEs remains subject to regulatory uncertainty at the local, state and federal levels. For example, under certain circumstances, we may be found to be responsible for paying salaries, wages and related payroll taxes of our WSEs, even if our clients have not timely remitted payments to us.

Our WSEs work in our clients' workplaces. Our ability to control the workplace environment of our clients is limited. As a co-employer of WSEs, we may be subject to liability for violations of labor and employment laws, industry-specific laws that apply to the businesses our clients operate, other laws that apply to our clients or to employers generally, and other acts and omissions by our clients or WSEs, even if we do not violate such laws or participate in such acts or omissions. State and federal positions regarding co-employment relationships are in a constant state of flux and have changed with varying degrees of impact on our operations. We cannot predict when changes will occur or forecast whether any particular future changes will be favorable or unfavorable to our operations.

We seek to mitigate these risks through agreements and insurance coverage. Our agreements with our clients divide responsibilities between us and our clients and provide that our clients will indemnify us for any liability attributable to their own or our WSEs' conduct. However, we may not be able to effectively enforce or collect on these obligations. In addition, we maintain insurance coverage, including workers’ compensation and EPLI coverage, to limit our and our clients' exposure to various WSE-related claims, but subject to split by contract, we are still responsible for any deductible layer under such insurance and such insurance generally excludes coverage for claims relating to the classification of employees as exempt or non-exempt, other wage and hour issues, and employment contract disputes, among other things. We cannot assure you that our insurance will be sufficient in amount or scope to cover all claims that may be asserted against us and for which we are unable to obtain indemnification from our clients.

Negative publicity relating to events or activities attributed to us, our corporate employees, WSEs, or others associated with us, whether or not justified, may tarnish our reputation and reduce the value of our brand. In addition, if our brand is negatively impacted, it may have a material adverse effect on our business, including creating challenges in retaining clients or attracting new clients and hiring and retaining employees.

Cyber-attacks or other security-related incidents could result in reduced revenue, increased costs, liability claims, regulatory penalties, and damage to our reputation.

Maintaining the security of our infrastructure and the confidentiality of our clients' and WSEs' personal data and information is paramount for us and our clients. Clients using our technology platform and services rely on the security of our infrastructure to ensure the reliability of our products and services and the protection of sensitive client and WSE data. We collect, store, use, process, transfer, disclose, and transmit a large amount of personal and confidential information about our clients, WSEs and colleagues, including bank account and social security numbers, data used for tax returns, certain medical information, retirement account information and payroll data. In providing our services, we also rely on third-party service providers, such as insurance carriers and banks, who have access to personal and confidential information about our clients, WSEs and employees and some of those service providers subcontract some of their responsibilities to other third-party service providers. Through contractual provisions and third party risk management processes, we take steps to require that our service providers protect our funds and sensitive information. Due to the size and complexity of our information technology system, the amount of sensitive data that we store and the number of employees and third-party service providers with access to that data, our information technology systems are potentially vulnerable to a variety of intentional and inadvertent security threats.

Threats to our information technology systems and data security can take a variety of forms. Hackers may develop and deploy viruses, worms and other malicious software programs that attack our networks and data centers or those of our service providers. Other malicious actors may direct social engineering, phishing, credential stuffing and similar types of attacks against either or both of us and our clients and service providers. Other threats include inadvertent security breaches by our employees, clients, WSEs, service providers and other business partners.

Organizations and individuals have launched and will continue to potentially launch such targeted attacks, including social engineering, phishing and credential stuffing attacks, against us, our service providers, and our clients. Such attacks have and can disrupt, or result in unauthorized access to, our networks, applications, bank accounts, and confidential data, or those of our clients or WSEs or service providers. In addition, we, our service providers and our clients have experienced inadvertent security breaches that led to disclosures of sensitive client and WSE data in the past and could have such experiences in the future.

Any cyber-attack, unauthorized intrusion, insider theft, malicious software infiltration, network disruption, denial of service or other data security incident could result in disruption to our systems and services, product development delays, and the disclosure or misuse of personal and confidential information. This could have a material adverse effect on our business operations, result in liability or regulatory sanction or a loss of confidence in our ability to provide our services, or harm our reputation and relationships with current or potential clients. The costs of identifying and remediating any attack, breach, or disclosure, and the costs associated with responding to litigation or regulatory investigations, could have a material adverse effect on our business and reduce our operating margins. Any publicized security problems, or even public rumors about a security problem, affecting our businesses and/or those of our service providers may have a similarly material adverse effect on our business or reputation.

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We have implemented policy, procedural, technical, physical, and administrative controls with the aim of protecting our networks, applications, bank accounts, and the personal and confidential information entrusted to us from such threats. While we, and our service providers, have security measures and programs in place to prevent, detect, and respond to attacks, data security incidents and other similar threats, these security measures and programs and our collective efforts may not always succeed. Despite our efforts and those of our service providers, we cannot fully eliminate the possibility of such attacks, data security incidents and other threats, whether intentional or inadvertent and whether internal or external and we, our clients or our service providers may not discover a security incident for a significant period of time after the incident occurs. We also expect that intentional threats to our infrastructure and our clients’ and WSEs’ data will continue to grow in frequency, complexity and sophistication. As a result, we are investing, and plan to continue investing, resources to protect our information security ecosystem against such incidents though we may not have adequate insurance coverage to compensate for losses from a security incident.
Maintaining the security of confidential WSE information is particularly important to us as a sponsor of employee benefit plans with access to certain personal health information. The manner in which we manage PHI is subject to HIPAA and the HITECH Act. To the extent possible, the health information we possess is anonymized and accessed through a secured third-party database. Although we maintain, and actively seek to improve, security measures and infrastructure designed to protect against unauthorized access to this sensitive data, cyber-attacks and security breaches remain a significant threat to our business. Any security breach, whether deliberate or inadvertent, could result in the access, public disclosure, loss or theft of our clients' and WSEs' confidential and personal data, including PHI, which could negatively affect our ability to attract new clients, cause existing clients to terminate their agreements with us, result in reputational damage and subject us to lawsuits, regulatory fines, or other actions or liabilities which could materially and adversely affect our business and operating results.

We are also subject to various federal, state and foreign laws, rules, and regulations relating to the collection, use, and security of personal and confidential information. For example, U.S. states, the District of Columbia and Canada have enacted breach notification laws that may require us to notify WSEs, clients, employees, or regulators in the event of unauthorized access to or disclosure of personal or confidential information. Complying with these various laws, and with any new laws or regulations or changes to existing laws, could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. For example, we must comply with the requirements of the California Consumer Privacy Act of 2018 (CCPA) by January 1, 2020, which may require us to incur additional costs. Changes or inconsistencies in interpretations of these laws and regulations and/or changes in enforcement priorities may result in significant penalties or liability for non-compliance.

Unexpected changes in workers' compensation and health insurance claims by worksite employees could harm our business.

Our insurance costs, which make up a significant portion of our overall costs, are significantly affected by our WSEs’ health and workers' compensation insurance claims experience. We establish accrued costs to provide for the estimated costs of reimbursing our workers' compensation and health insurance carriers under our insurance policies, relying on third-party actuaries and our own experience, but the volume and severity of claims activity is inherently unpredictable. If we experience a sudden or unexpected increase or decrease in claims activity including an increase in WSE incidents or costs of those incidents, our costs could increase or decrease, respectively. An increase in claims activity could make it more difficult to secure replacement insurance policies on competitive terms once our current policies expire. Estimating these accrued costs requires us to consider a number of factors and requires significant judgment. If there is an unexpected increase or decrease in the severity or frequency of claims activity of our WSEs (including activity arising from any of a number of factors that affect claim activity levels, such as changes in general economic conditions, claims differing significantly from expectations, and terrorism, disease outbreaks or other catastrophic events), or if we subsequently receive updated information indicating insurance claims were higher or lower than previously estimated and reported, our insurance costs could be higher or lower, respectively, in that period or subsequent periods as we adjust our accrued costs accordingly, which could have a material adverse effect on our business. We have experienced both favorable and unfavorable insurance cost variability due to claims activity in the past and could have similar or worse experiences in the future.

RISK FACTORS

Some of our health insurance policies include risk-based policies that can limit our exposure for individual claims and our maximum aggregate claims exposure in each policy year. Refer to Note 1 in Part II, Item 8. Financial Statements and Supplementary Data, of this Form 10-K for further discussion of these policies. We have experienced variability, and may experience variability in the future, in the amounts that we are required to pay for group health insurance expenses incurred by WSEs within our deductible layer under these risk-based policies, based on continually changing trends in the frequency and severity of claims. These historical trends may change, and other seasonal trends and variability may develop, which may make it more difficult for us to manage this aspect of our business and which may have a material adverse effect on our business.

Our results of operations and stock price may fluctuate as a result of numerous factors, many of which are outside of our control.

Our future operating results and stock price are subject to fluctuations and quarterly variations based upon a variety of factors, many of which are not within our control, including, without limitation:

- the volume and severity of health and workers' compensation insurance claims by our WSEs, recorded as part of our insurance costs, and the timing of related claims information provided by our insurance carriers,
- the amount and timing of our other insurance costs, operating expenses and capital expenditures,
- the number of our new clients initiating service and the number of WSEs employed by each new client,
- the retention, loss or merger of existing clients,
- a reduction in the number of WSEs employed by existing clients,
- the timing of client payments and payment defaults by clients,
- the costs associated with our acquisitions of companies, assets and technologies,
- any payments or draw downs on our credit facility,
- any unanticipated expenses, such as litigation or other dispute-related settlement payments,
- any expenses we incur for geographic and service expansion,
- any changes in laws or adverse interpretation of laws, which may require us to change the manner in which we operate and/or increase our regulatory compliance costs,
- any changes in our effective tax rate, and
- the impact of new accounting pronouncements.

In addition, the trading price of our common stock is subject to fluctuation in response to a variety of factors, including the factors above and below, many of which are not within our control, including, without limitation:

- the overall performance of the equity markets,
- any trading activity, or a market expectation regarding such activity, by our directors, executive officers and significant stockholders,
- the economy as a whole, and its impact on SMBs and our clients,
- the performance and market perception of companies that investors believe are similar to us, and
- any significant changes in the liquidity of our common stock.

RISK FACTORS

Many of the above factors are discussed in more detail elsewhere in this Risk Factors section and in Part II, Item 7. MD&A, of this Form 10-K. Many of these factors are outside our control, and the variability and unpredictability of these factors have in the past and could in the future cause us to fail to meet our expectations and the expectations of investors and any industry analysts who cover our shares, which could result in a decline in our share price and reduced liquidity in our shares. In addition, the occurrence of one or more of these factors might cause our results of operations to vary widely, which could lead to negative impacts on our margins, short-term liquidity, and our ability to retain or attract key personnel, and could cause other unanticipated issues, including a downgrade of our shares by or change in opinion of industry analysts and a related decline in our share price.

Any failure in our business systems, or any third-party business systems or service provider that we rely upon, could reduce the quality of our business services, harm our reputation and expose us to liability.

Our business is highly dependent on data processing systems that rely on the complex integration of numerous hardware and software subsystems to manage, on a daily basis, a large volume of client and WSE transactions, including the processing of employee, payroll and benefits data. Our systems have and could be disrupted by, among other things, equipment failures, computer server or systems failures, network outages, malicious acts, software errors or defects, vendor performance problems, power failures, natural disasters, terrorist actions or similar events. Any delay or failure in these systems, even if only for a short period of time, can have a significant impact on our clients and WSEs and result in a loss of clients and/or liability to our clients and WSEs or fines and penalties levied by the government agencies that regulate our operations, any of which could result in a materially adverse effect on our reputation and business. For example, errors in our products and services, such as the erroneous denial of healthcare benefits or delays in making payroll, could expose our clients to liability claims from improperly serviced WSEs, for which we may be contractually obligated to provide indemnification.

In addition, we rely on third-party systems to provide services for our clients and WSEs, such as electronic banking systems and payroll tax systems that transmit client and WSE data to taxing agencies. If any of these systems were disrupted or if the third parties who provide those systems were to experience operational or financial difficulties even if only for a short period of time, which has happened in the past and could happen in the future, the solutions we provide to our clients and WSEs could be significantly affected, which could also result in a material adverse effect on our reputation and business. We also rely on enterprise software applications licensed from third parties that are upgraded from time to time. Any difficulties we encounter in adapting application upgrades to our systems could harm our performance, delay or prevent us from providing services to our clients.

To succeed, we must constantly improve our technology to meet the expectations of our clients. If we fail to meet those expectations, we may lose clients and harm our business.

In order to attract and retain clients and satisfy their expectations, the software, hardware and networking technologies we use must be frequently and rapidly upgraded, enhanced and expanded in response to technological advances, competitive pressures, client expectations, and new and changing laws. As a result, we must timely and effectively identify, develop, or license from third parties, and integrate such upgraded, enhanced or expanded technologies into the solutions that we provide. New products or upgrades may not be released according to schedule, or may contain defects when released. Difficulties in integrating new technologies could result in adverse publicity, loss of sales, delay in market acceptance of our services, or client claims against us, any of which could materially harm our business. We could also incur substantial costs in modifying our services or infrastructure to adapt to these changes. In addition, we could lose market share if our competitors develop technologically superior products and services.

RISK FACTORS

We have remediated the material weakness previously reported in our internal control over financial reporting, but if we fail to properly manage our internal control over financial reporting on a go forward basis, future material weaknesses could be identified that could, if not remediated, result in a material misstatement in our financial statements.

We have remediated the material weakness that we previously identified in connection with the audit of our consolidated financial statements as of and for the year ended December 31, 2017 by implementing and enhancing our control procedures. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. In order to properly manage our internal control over financial reporting, we may need to take additional measures, including system migration and automation, and we cannot be certain that the measures we have taken, and expect to take, to improve our internal controls will be sufficient to ensure that our internal controls will remain effective and eliminate the possibility that other material weakness or deficiencies may develop or be identified in the future. Implementing any changes to our internal controls may distract our officers and employees and require expenditures to implement new process or modify our existing processes. If we experience future material weaknesses or deficiencies in internal controls and we are unable to correct them in a timely manner, our ability to record, process, summarize and report financial information accurately and within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, will be adversely affected. Any such failure could negatively affect the market price and trading liquidity of our common stock, lead to delisting, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties, and generally materially and adversely impact our business and financial condition.

We have acquired, and may in the future acquire, other businesses and technologies, which can divert management's attention and create integration risks and other risks for our business.

We have completed numerous acquisitions of other businesses and technologies, and we expect that we will continue to pursue future acquisitions. Such acquisitions involve numerous other risks, including:

- identifying attractive acquisition candidates,
- over-valuing and over-paying for acquisition candidates,
- integrating the operations, systems, technologies, services and personnel of the acquired companies, which may include the migration of WSEs from the technology platform and service providers used by the acquired company to our own,
- establishing or maintaining internal controls, procedures and policies relating to the acquired systems and processes, including the potential for actual or perceived control weaknesses associated with or arising from the acquisitions and integration of acquired systems,
- diversion of management's attention from other business concerns,
- litigation resulting from activities of the acquired company, including claims from terminated employees, clients, former stockholders and other third parties,
- insufficient revenues to offset increased expenses associated with the acquisitions and unanticipated liabilities of the acquired companies,
- insufficient indemnification or security from the selling parties for legal liabilities that we may assume in connection with our acquisitions,
- entering markets in which we have no prior experience and may not succeed,
- potential loss of key employees of the acquired companies, and
- impairment of relationships with clients and employees of the acquired companies or our clients and employees as a result of the integration of acquired operations and new management personnel.

We have experienced increased operating costs to resolve the challenges of prior acquisitions. If we fail to appropriately integrate any acquired business, we may fail to achieve our growth, service enhancement or operational efficiency objectives, and our business, results of operations and financial condition could be harmed.

RISK FACTORS

We may pay for acquisitions by issuing additional shares of our common stock, which would dilute our stockholders, or by issuing debt, which could include terms that restrict our ability to operate our business or pursue other opportunities and subject us to significant debt service obligations. We may also use significant amounts of cash to complete acquisitions. To the extent that we complete acquisitions in the future, we likely will incur future amortization expenses associated with the acquired assets. We may also record significant amounts of intangible assets, including goodwill, which could become impaired in the future. Any such impairment charges would adversely affect our results of operations.

Our SMB clients are particularly affected by volatility in the financial and economic environment, which could harm our business.

Our clients are small and mid-sized businesses that we believe can be particularly susceptible to changes in the level of overall economic activity in the markets in which we operate. During periods of weak economic conditions, small business failures tend to increase and employment levels tend to decrease. Current or potential clients may react to weak or forecasted weak economic conditions by reducing employee headcount or wages, bonuses or benefits levels, any of which would affect our revenues, and may affect our margins, because we may be unable to reduce our operating expenses sufficiently enough or quickly enough to offset the decrease in revenues. It is difficult to forecast future demand for our services due to the inherent difficulty in forecasting the direction, strength and length of economic cycles. These conditions may affect the willingness of our clients and potential clients to pay outside vendors for services like ours, and may impact their ability to pay their obligations to us on time, or at all.

For example, as a result of macroeconomic factors, interest rates may become more volatile. Increased interest rate volatility could also negatively impact our clients' and prospects' access to credit. If businesses have difficulty obtaining credit, business growth and new business formation may be impaired, which could also harm our business. Even modest downturns in economic activity on a regional or national level could have a material adverse effect on our financial condition or results of operations.

Our business and operations have undergone and will continue to undergo significant change as we seek to improve our operational effectiveness. If we are unable to effectively manage this change, our business and results of operations may suffer.

We have significantly changed our operations and internal processes in recent periods in order to improve our operational effectiveness, which has placed a strain on our systems, management, administrative, operational and financial infrastructure. We believe these efforts are important to our long-term success. Managing these changes will continue to require further refinement to our operational, financial and management controls and reporting systems and procedures while we simultaneously seek to effectively recruit, integrate, train and motivate new corporate employees, retain our existing corporate employees, maintain the beneficial aspects of our corporate culture, effectively execute our business plan, satisfy the requirements of our existing clients, acquire new clients, and enhance the quality and scope of our services. These activities will require significant operating and capital expenditures and allocation of valuable management and employee resources, which we expect will continue to place significant demands on our management and on our operational and financial infrastructure. If we fail to manage these changes effectively, our costs and expenses may increase more than we expect and our business, financial condition and results of operations may be harmed.

If our vertical strategy is unsuccessful, we may not be able to grow our business at the rate that we anticipate.

We have developed an industry vertical business strategy and we plan to continue to devote significant resources and time in pursuit of this strategy. Under our industry vertical strategy, our sales force, product development, and service teams are focused on specific business sectors. We cannot assure you that our industry vertical approach will resonate with our existing and prospective clients, that we will target the right industries, that our vertical products will have all of the features most valuable to existing and prospective clients in those industries, or that we will implement our strategy in a timely and effective manner. If our vertical strategy is unsuccessful, our business may not grow at the rate that we anticipate, which could have a material adverse effect on our financial condition and results of operations.

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If we are unable to train and manage our sales force effectively, our business may be harmed.

We have experienced sales force attrition in the past and we rely on a well-trained sales force to promote our industry vertical strategy and sell our solutions. Competition for skilled sales personnel is intense, and we cannot assure you that we will be successful in attracting, training and retaining qualified sales personnel, or that any newly hired sales personnel will function effectively either individually or as a group. In addition, newly hired sales personnel are typically not productive for some period of time following their hiring, which results in increased near-term costs to us relative to their actual sales contributions during this period. If we are unable to effectively train our sales force and benefit from greater productivity of our sales representatives, or if our sales force is otherwise unable to sell our solutions as we anticipate, our revenues likely will not increase at the rate that we anticipate, which could have a material adverse effect on our business, financial condition and results of operations.

Our reputation could suffer and our business could be adversely affected if our products do not perform, and our services are not delivered, as expected by our clients and WSEs.

In order to attract and retain clients, we believe that we must compete in our industry effectively on the basis of the value proposition that we deliver to our clients including customer experience and satisfaction, breadth and depth of our benefit plans, vertical market expertise, total cost of service, brand awareness and reputation, ability to innovate and respond to customer needs rapidly, access to online and mobile solutions, and subject matter expertise. The expectations of our clients and prospective clients in these areas change over time as a result of many factors outside of our control, such as competition, regulatory and technical changes, and changing trends in the demands employees place on SMB employers. If we are unable to continually satisfy the evolving product and service delivery expectations of our clients and WSEs, then we could experience greater rates of attrition and lower rates for on-boarding new clients, which could have a material adverse effect on our business. Even if we are capable of satisfying client expectations in these areas, we may not be able to do so on a cost-effective basis, which could have a material adverse effect on our financial condition and our results of operations.

Most of our clients are concentrated in certain geographic regions and a relatively small number of industries, making us vulnerable to downturns in those geographies and industries.

Most of our clients are concentrated in certain geographic regions and operate in a relatively small number of industries, including the technology, life sciences, not-for-profit, professional services and financial services industries. As a result, if any of those geographic regions or specific industries suffers a downturn, the portion of our business attributable to clients in that region or industry could be adversely affected, which could have a material adverse effect on our financial condition or results of operations.

We are subject to legal proceedings that may result in adverse outcomes.

We are subject to claims, suits, government investigations, and proceedings arising from the ordinary course of our business. Refer to Note 8 in Part II, Item 8. Financial Statements and Supplementary Data, of this Form 10-K for additional information about the legal proceedings we are currently involved in and future proceedings that we may face. Current and future legal proceedings may result in substantial costs and may divert management’s attention and resources, which may seriously harm our business, results of operations, financial condition and liquidity.

Changes in our income tax positions or adverse outcomes resulting from on-going or future tax audits could harm our business, operating results, financial condition and prospects.

Significant judgments and estimates are required in determining our provision for income taxes and other tax liabilities. Our provision for income taxes, results of operations and cash flows may be impacted if any of our tax positions are challenged and successfully disputed by the tax authorities. In determining the adequacy of our tax provision, we assess the likelihood of adverse outcomes that could result if our tax positions were challenged by the IRS and other tax authorities. The tax authorities in the U.S. regularly examine our income and other tax returns. Refer to Note 10 in Part II, Item 8. Financial Statements and Supplementary Data, of this Form 10-K for additional details regarding our on-going tax examinations and disputes. The ultimate outcome of tax examinations and disputes cannot be predicted with certainty. Should the IRS or other tax authorities assess additional taxes as a result of these or other examinations, we may be required to record charges to operations that could have a material impact on our results of operations, financial position or cash flows.

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Adverse changes in our insurance coverage, or in our relationships with key insurance carriers, could harm our business.

Our success depends in part on our ability to maintain competitive health and workers' compensation coverage options and insurance rates through well-known insurance carriers. If we are unable to maintain competitive insurance rates or obtain popular and desirable coverage plans through well-known insurance carriers, it could affect our ability to attract and retain clients, which could have a material adverse effect on our business. Where we sponsor insurance coverage and we are not responsible for any deductibles, our carriers set the premiums and the rates set by our carriers on these policies may not be competitive. Even where we sponsor insurance under which we are responsible for deductibles, we may not be able to control costs through the deductible layer in a way that would make our rates competitive.

In addition, broad adoption of our services in certain geographic regions or industries may make it more difficult for us to obtain competitive health and/or workers' compensation insurance rates due to concentration of clients within a particular region or industry. The loss of any one or more of our key insurance vendors in these areas, or our inability to partner with certain vendors that are better-known or more desirable to our clients or potential clients, could have a material adverse effect on our financial condition and results of operations.

There is significant competition for our clients and clients may terminate our services based on a variety of factors, many of which are difficult for us to control, which can negatively impact our business.

We regularly experience client attrition due to a variety of factors that are difficult for us to control, including cost pressures, client merger and acquisition activity, increases in administrative and insurance service fees, client business failure, effects of competition, and client decisions to bring their HR administration in-house. Our standard client service agreement can be canceled by us or by the client without penalty with 30 days’ prior written notice. Clients who intend to cease doing business with us often elect to do so effective as of the beginning of a calendar year. As a result, we have historically experienced our largest concentration of client attrition in the first quarter of each year. In addition, we experience higher levels of client attrition in connection with renewals of the health insurance coverage we sponsor for WSEs in the event that such renewals result in increased costs. If we were to experience client attrition in excess of our historic annual attrition rate, it could have a material adverse effect on our business, financial condition and results of operations.

The terms of our credit facility may restrict our current and future operations, which would impair our ability to respond to changes in our business and to manage our business.

Our credit facility contains, and any future indebtedness of ours would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us subject to customary exceptions, including restricting our ability to:

- incur, assume or guarantee additional debt,
- pay dividends or distributions or redeem or repurchase capital stock,
- incur or assume liens,
- make loans, investments and acquisitions,
- engage in sales of assets and subsidiary stock,
- enter into sale-leaseback transactions,
- enter into certain transactions with affiliates,
- enter into certain hedging agreements,
- enter into new lines of business,

RISK FACTORS

- prepay certain indebtedness,
- transfer all or substantially all of our assets or enter into merger or consolidation transactions with another person, and
- enter into agreements that prohibit the incurrence of liens or the payment by our subsidiaries of dividends and distributions.

Our failure to comply with these restrictions and the other terms and conditions under our credit facility could result in a default, which in turn could result in the termination of the lenders' commitments to extend further credit to us under our credit facility and acceleration of a substantial portion of our indebtedness then outstanding under our credit facility. If that were to happen, we may not be able to repay all of the amounts that would become due under our indebtedness or refinance our debt, which could materially harm our business and force us to seek bankruptcy protection.

Atairos, our largest stockholder, may have significant influence over our Company, and the ownership of capital stock, and thus the voting control, of our Company remains concentrated in our executive officers, directors and their affiliates, which limits your ability to influence corporate matters.

On February 1, 2017, an entity affiliated with Atairos Group, Inc. (together with its affiliates, "Atairos") became our largest stockholder when it acquired the shares of TriNet common stock previously held by General Atlantic. In connection with this transaction, we appointed Michael J. Angelakis, the Chairman and CEO of Atairos, to our board of directors and agreed to nominate Mr. Angelakis or another designee of Atairos reasonably acceptable to our Nominating and Corporate Governance Committee for election at future annual meetings until Atairos' beneficial ownership falls below 15% of our common stock. As of February 7, 2019, Atairos beneficially owned approximately 28% of our outstanding common stock, and all of our directors, executive officers and their affiliates, including Atairos, beneficially own, in the aggregate, approximately 37% of our outstanding common stock. As a result, of the foregoing, Atairos, particularly when acting with our executive officers, directors and their affiliates, will be able to exert substantial influence on all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit the ability of other stockholders to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Our industry is highly competitive, which may limit our ability to maintain or increase our market share or improve our results of operations.

We face significant competition on a national and regional level from other PEOs, as well as other existing, and potential, companies and industries that service, or may in the future service, client HR needs. Refer to the heading "Competition" under Part I, Item 1. Business, above for more details. Our competitors, regardless of industry, may have greater marketing and financial resources than we have, and may be better positioned than we are in certain markets. Increased competition in our industry could result in price reductions or loss of market share, any of which could harm our business. We expect that we will continue to experience competitive pricing pressure.

Moreover, we may not be successful in convincing potential clients that the use of our services is a superior, cost-effective means of satisfying their HR obligations relative to the way in which they currently satisfy these obligations either by themselves or by using the services of our competitors. If we cannot compete effectively against other PEOs or against the alternative means by which companies meet their HR obligations, or if we are unable to convince clients or potential clients of the advantages of our offerings, our market share and business may suffer, resulting in a material, adverse effect on our financial condition and results of operations.

PROPERTIES,
LEGAL
PROCEEDINGS
AND MINE
SAFETY
DISCLOSURES

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease space for 58 offices in various U.S. states, including the following:

Corporate:	Client Service Centers:
• Dublin, California	• Bradenton, Florida
	• Reno, Nevada
	• Fort Mill, South Carolina
	• New York, New York

All of these leases expire at various times up through 2028. We believe that our leases are sufficient for our current purposes and long-term growth and expansion goals.

Item 3. Legal Proceedings

For the information required in this section, refer to Note 8 in Part II, Item 8. Financial Statements and Supplementary Data, of this Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

STOCK ACTIVITIES

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders of Record

Our common stock has been listed on the New York Stock Exchange under the symbol “TNET” since March 2014. On February 7, 2019, the last reported sales price of our common stock on the New York Stock Exchange was $45.53 per share. As of February 7, 2019, we had 42 holders of record of our common stock per Computershare Trust Company N.A., our transfer agent. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

For information regarding our equity-based incentive plans, please refer to Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this Form 10-K.

Dividend Policy

We did not declare or pay cash dividends in 2018 or 2017. Payment of cash dividends, if any, in the future will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions under our credit facility (refer to Note 7 in Part II, Item 8. Financial Statements and Supplementary Data, of this Form 10-K), capital requirements, business prospects and other factors our board of directors may deem relevant.

Performance Graph

The graph on the following page compares the cumulative return on our common stock since the initial public offering in March 2014 with the cumulative return on the S&P 500 Index and a Peer Group Index. The cumulative return is based on the assumption that $100 had been invested in TriNet Group, Inc. common stock, the Standard & Poor's 500 Stock Index (S&P 500) and common stock of members of a Peer Group Index, all on the date of TriNet's initial public offering in March 2014 and that all quarterly dividends were reinvested. The cumulative dollar returns shown on the graph represent the value that such investments would have had at each quarter end.

STOCK ACTIVITIES

COMPARISON OF 57 MONTH CUMULATIVE TOTAL RETURN

Among TriNet Group, Inc., the S&P 500 Index, and a Peer Group[1]

[1] The Peer Group Index used in the chart above consists of the following companies:

Automatic Data Processing, Inc.	Insperity, Inc.	Paychex, Inc.
Barrett Business Services, Inc.	Intuit, Inc.	

Issuer Purchases of Equity Securities

Our ongoing stock repurchase program was originally approved by our board of directors in 2014 and has been subsequently amended. As of December 31, 2018, our board of directors had authorized us to repurchase up to an aggregate of $315 million under this program of which approximately $75 million remains available for repurchases under all authorizations approved by the board of directors. We repurchased a total of approximately $61 million of our outstanding common stock in 2018 using existing cash and cash equivalents through our Rule 10b5-1 plan. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. This repurchase authorization has no expiration. We plan to use current cash and cash generated from ongoing operating activities to fund this share repurchase program. Stock repurchases under the program are primarily intended to return value to our stockholders and offset the dilutive effect of equity-based employee incentive compensation.

STOCK ACTIVITIES

The following table provides information about our purchases of TriNet common stock during the fourth quarter of 2018:

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 of Shares that May Yet Be Purchased Under the Plans (in millions) (2)
October 1 - October 31, 2018	136,944	$ 50.57	135,026	$ 83
November 1 - November 30, 2018	242,679	$ 45.07	158,563	$ 75
December 1 - December 31, 2018	79,375	$ 41.30	1,707	$ 75
Total	458,998		295,296	

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

(2) We repurchased a total of approximately $14 million of our outstanding stock during the three months ended December 31, 2018.

On February 6, 2019, 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.

Our stock repurchases are subject to certain restrictions under the terms of our credit facility. For more information about our stock repurchases and the restrictions imposed by our credit facility, refer to Note 7 and Note 9 in Part II, Item 8. Financial Statements and Supplementary Data, of this Form 10-K.

SELECTED FINANCIAL DATA

Item 6. Selected Financial Data

The following selected consolidated financial and other data should be read in conjunction with Part II, Item 7. MD&A, as well as our audited consolidated financial statements and related notes included in Part II, Item 8. Financial Statements and Supplementary Data, of this Form 10-K.

	Year Ended December 31,				
(in millions, except per share data)	2018	2017	2016	2015	2014
Income Statement Data:					
Total revenues	$3,503	$3,275	$3,060	$2,659	$2,194
Net income	192	178	61	32	15
Diluted net income per share of common stock	2.65	2.49	0.85	0.44	0.22
Non-GAAP measures [1]:					
Net Service Revenues	893	809	646	547	508
Net Insurance Service Revenues	406	351	199	146	166
Adjusted EBITDA	347	285	185	151	165
Adjusted Net Income	218	142	87	71	74
Balance Sheet Data:					
Cash and cash equivalents	$228	$336	$184	$166	$134
Working capital	221	234	156	112	121
Total assets	2,435	2,593	2,095	2,092	2,341
Long-term debt	413	423	459	494	545
Total liabilities	2,060	2,387	2,060	2,084	2,366
Total stockholders' equity (deficit)	375	206	35	8	(25)
Cash Flow Data:					
Net cash (used in) provided by operating activities [2]	$(104)	$606	$192	$(281)	$1,038
Net cash (used in) provided by investing activities	(200)	(24)	(27)	(38)	(45)
Net cash (used in) financing activities [2]	(85)	(77)	(104)	(81)	(76)
Non-GAAP measures [1]:					
Corporate operating cash flows	234	299	189	169	143

(1) Refer to Non-GAAP Financial Measures section on the following pages for definitions and reconciliations from GAAP measures.

(2) Prior year balances were retrospectively adjusted for ASU 2016-18. Refer to Note 1 in Item 8: Financial Statements and Supplementary Data, of this Form 10-K for details.

Non-GAAP Financial Measures

In addition to financial measures presented in accordance with U.S. Generally Accepted Accounting Principles (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, superior to, or as a substitute for the directly comparable financial measures prepared in accordance with GAAP.

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SELECTED FINANCIAL DATA

Non-GAAP Measure	Definition	How We Use The Measure
Net Service Revenues	• 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 represented 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.
Net Insurance Service Revenues	• Insurance 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 represented 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. • We also sometimes refer to Net Insurance Service Margin, which is the ratio of Net Insurance Revenue to Insurance Service Revenue.
Adjusted EBITDA	• 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-ca