TRINET GROUP INC
Form 10-Q
August 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-36373

TriNet Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

1100 San Leandro Blvd., Suite 400

San Leandro, CA 94577

(Address of principal executive offices) (Zip code)

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

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

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

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

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

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

As of July 31, 2015, the registrant had 70,558,270 shares of common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements
TriNet Group, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2015	December 31, 2014
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 128,413	$ 134,341
Restricted cash	14,550	14,543
Prepaid income taxes	20,431	26,711
Prepaid expenses	14,541	9,336
Deferred loan costs and other current assets	4,148	4,271
Worksite employee related assets	838,239	1,635,136
Total current assets	1,020,322	1,824,338
Workers compensation receivable	37,238	31,905
Restricted cash and investments	82,853	69,447
Property and equipment, net	36,134	32,298
Goodwill	288,857	288,857
Other intangible assets, net	59,893	81,718
Deferred and other long term income taxes	21,715	7,184
Deferred loan costs and other assets	10,033	12,017
Total assets	$ 1,557,045	$ 2,347,764
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 12,354	$ 12,273
Accrued corporate wages	26,250	29,179
Deferred income taxes	67,777	65,713
Current portion of notes payable and borrowings under capital leases	20,272	20,738
Other current liabilities	10,410	10,303
Worksite employee related liabilities	832,531	1,630,555
Total current liabilities	969,594	1,768,761
Notes payable and borrowings under capital leases, less current portion	489,553	524,412
Workers compensation liabilities	99,125	75,448
Other liabilities	6,715	4,902
Total liabilities	1,564,987	2,373,523
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock, $.000025 per share stated value; 20,000,000 shares authorized; no shares issued and outstanding at June 30, 2015 and December 31, 2014	—	—
Common stock, $.000025 per share stated value; 750,000,000 shares authorized;	476,426	442,682

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

See accompanying notes.

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TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

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

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

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

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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

Supplemental disclosures of cash flow information

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

See accompanying notes.

TriNet Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

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

Segment Information

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

Basis of Presentation

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

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

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

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

Seasonality and Insurance Variability

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

insurance claims based on the unpredictable nature of large claims. These historical trends may change, and other seasonal trends and variability may develop that make it more difficult for the Company to manage its business.

Use of Estimates

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

Recent Accounting Pronouncements

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

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

In January 2015, the FASB issued ASU 2015-01— Income Statement-Extraordinary and Unusual Items, as part of its Simplification Initiative. ASU 2015-01 became effective on January 9, 2015. The amendment eliminates from GAAP the concept of extraordinary items. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted this guidance in 2014. The adoption did not have an effect on the consolidated financial statements.

In November 2014, the FASB issued ASU 2014-17— Business Combinations, which provides an acquired entity with an option to apply pushdown accounting in its financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. ASU 2014-17 became effective on November 28, 2014. An acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The Company adopted this guidance in 2014. The adoption did not have an effect on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15—Presentation of Financial Statements — Going Concern (Subtopic 205-40), which addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The standard will be effective for the first interim period within annual reporting periods

beginning after December 15, 2016. Early adoption is permitted. The Company does not expect to early adopt this guidance and does not believe that the adoption of this guidance will have a material effect on its consolidated financial statements.

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

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

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

NOTE 2. WORKSITE EMPLOYEE-RELATED ASSETS AND LIABILITIES

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

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

NOTE 3. WORKERS COMPENSATION

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

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

	For the six months ended June 30, 2015	For the year ended December 31, 2014
Liability for unpaid claims and claims adjustment at beginning of period	$ 92,406	$ 58,610
Incurred related to:		
Current year	40,155	61,669
Prior years	2,094	(4,725)
Total incurred	42,249	56,944
Paid related to:		
Current year	(12,527)	(13,525)
Prior years	(6,537)	(9,623)
Total paid	(19,064)	(23,148)
Liability for unpaid claims and claims adjustment at end of period	115,591	92,406
Other premiums and collateral liabilities	26,469	19,820
Total workers compensation liabilities at end of period	$ 142,060	$ 112,226
Current portion included in worksite employee-related liability	42,935	36,778
Long term portion	$ 99,125	$ 75,448

Under the terms of its agreements with its workers compensation insurance carriers, the Company collects and holds premiums in restricted accounts pending claims payments by the claims administrator. As of June 30, 2015 and December 31, 2014, such restricted amounts of $41.2 million and $36.5 million, respectively, are presented as restricted cash and restricted investment within WSE-related assets in the accompanying consolidated balance sheets. In addition, at June 30, 2015 and December 31, 2014, $82.9 million and $69.4 million, respectively, are presented as restricted long-term investments.

NOTE 4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following (in thousands):

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

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

Projects in progress consist primarily of software development costs. The Company capitalizes software development costs intended for internal use. The Company recognized depreciation expense for capitalized internally developed software of $2.1 million and $2.9 million for the six months ended June 30, 2015 and 2014, respectively. Accumulated depreciation for these assets was $31.6 million and $29.4 million at June 30, 2015 and December 31, 2014, respectively.

NOTE 5. MARKETABLE SECURITIES AND FAIR VALUE MEASUREMENTS

The Company's noncurrent restricted cash and investments include $50.5 million of available-for-sale marketable securities and $32.4 million of cash collateral at June 30, 2015. The Company's restricted investments within WSE-related assets include $2.3 million of certificates of deposit as of June 30, 2015. The available-for-sale marketable securities as of June 30, 2015 and December 31, 2014 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2015:				
U.S. treasuries	$ 49,947	$ 68	$ -	$ 50,015
Mutual funds	500	7	-	507
Total investments	$ 50,447	$ 75	$ -	$ 50,522
December 31, 2014:				
U.S. treasuries	$ 50,075	$ 22	$ (15)	$ 50,082
Mutual funds	500	6	-	506
Total investments	$ 50,575	$ 28	$ (15)	$ 50,588

There were no realized gains or losses for the six months ended June 30, 2015 and 2014. As of June 30, 2015 and December 31, 2014, the contractual maturities of the U.S. treasuries were two to three years.

As of June 30, 2015, none of the Company's U.S. treasuries were in an unrealized loss position. Unrealized losses are principally due to changes in interest rates and credit spreads. In analyzing an issuer's financial condition, the Company considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The fair value of these securities in an unrealized loss position represented 0% and 59% of the total fair value of all securities available for sale as of June 30, 2015 and December 31, 2014, respectively, and their unrealized losses were de minimis as of June 30, 2015 and December 31, 2014. As the Company has the ability and intent to hold debt securities until maturity, or for the foreseeable future as classified as available for sale, no decline was deemed to be other-than-temporary.

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

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

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

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

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

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

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

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

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

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

NOTE 6. NOTES PAYABLE AND BORROWINGS UNDER CAPITAL LEASES

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

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

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

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

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

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

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

The Company is permitted to make voluntary prepayments at any time without payment of a premium. The Company is required to make mandatory prepayments of term loans (without payment of a premium) with (i) net cash proceeds from issuances of debt (other than certain permitted debt), (ii) net cash proceeds from certain non-ordinary course asset sales and casualty and condemnation proceeds (subject to reinvestment rights and other exceptions), and (iii) beginning with the fiscal year ending December 31, 2015, 50% of its excess cash flow (subject to decrease to (x) 25% if its total leverage ratio as of the last day of such fiscal year is less than 3.75 to 1.0 and equal to or greater than 3.00 to 1.0, and (y) 0% if the total leverage ratio as of the last day of such fiscal year is less than 3.00 to 1.0), provided that the Company may defer prepayments based on excess cash flow to the extent such payments would result the working capital being less than $10 million (after giving effect to such prepayments).

The tranche A term loans will be paid in equal quarterly installments in an aggregate annual amount equal to: (i) beginning on December 31, 2014 to December 31, 2016, 5% of the original principal amount thereof, (ii) beginning on December 31, 2016 to December 31, 2018, 7.5% of the original principal amount thereof, and (iii) beginning on December 31, 2018 to June 30, 2019, 10% of the original principal amount thereof with any remaining balance payable on the final maturity date of the tranche A term loans. The tranche B term loans will be paid in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount thereof, with any remaining balance payable on the final maturity date of the tranche B term loans.

The $75.0 million revolving credit facility includes capacity for a $30.0 million letter of credit facility and a $10.0 million swingline facility. The total unused portion of the revolving credit facility was $59.5 million as of June 30, 2015. In connection with the Amended and Restated Credit Agreement, the Company incurred $11.1 million of debt issuance costs. The Company deferred $8.0 million of the costs, which are being amortized over the term of the credit facility. The remaining $3.1 million of costs were recorded to interest expense and bank fees. Additionally, the Company recorded a $9.0 million loss on extinguishment of debt to write-off deferred issuance costs associated with the original first lien credit facility, which was also recorded to interest expense and bank fees. The remaining $6.1 million of loan fees associated with the previous facility that was deemed to be modified continues to be amortized over the revised remaining term of the Amended and Restated Credit Agreement.

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

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

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

NOTE 7: STOCKHOLDERS' EQUITY

Equity-Based Incentive Plans

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