INSPERITY, INC.
Form 10-Q
August 03, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2015.

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 No. 1-13998

Insperity, Inc.
(Exact name of registrant as specified in its charter)

Delaware	76-0479645
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

19001 Crescent Springs Drive Kingwood, Texas	77339
(Address of principal executive offices)	(Zip Code)

(Registrant's Telephone Number, Including Area Code): (281) 358-8986

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 ý No o

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

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

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

As of July 27, 2015, 24,771,705 shares of the registrant’s common stock, par value $0.01 per share, were outstanding.

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

INSPERITY, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS

	June 30, 2015 (Unaudited)	December 31, 2014
Current assets:		
Cash and cash equivalents	$167,728	$276,456
Restricted cash	48,887	44,040
Marketable securities	21,648	28,631
Accounts receivable, net:		
Trade	3,185	12,010
Unbilled	258,940	160,154
Other	3,506	2,952
Prepaid insurance	16,459	21,301
Assets held for sale	12,182	—
Other current assets	15,522	17,649
Deferred income taxes	3,537	6,316
Total current assets	551,594	569,509
Property and equipment:		
Land	5,214	5,214
Buildings and improvements	72,315	70,471
Computer hardware and software	89,525	89,204
Software development costs	43,439	41,314
Furniture, fixtures and other	38,704	38,617
Aircraft	—	35,866
	249,197	280,686
Accumulated depreciation and amortization	(191,055)	(196,341)
Total property and equipment, net	58,142	84,345
Other assets:		
Prepaid health insurance	9,000	9,000
Deposits – health insurance	3,700	3,700
Deposits – workers' compensation	110,877	113,934
Goodwill and other intangible assets, net	14,006	14,457
Deferred income taxes	3,956	—
Other assets	1,773	1,725
Total other assets	143,312	142,816
Total assets	$753,048	$796,670

Table of Contents

INSPERITY, INC.
CONSOLIDATED BALANCE SHEETS (Continued)
(in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2015 (Unaudited)	December 31, 2014
Current liabilities:		
Accounts payable	$2,383	$4,674
Payroll taxes and other payroll deductions payable	122,875	176,341
Accrued worksite employee payroll cost	228,091	192,396
Accrued health insurance costs	6,284	18,329
Accrued workers' compensation costs	50,841	45,592
Accrued corporate payroll and commissions	25,836	32,644
Other accrued liabilities	24,801	22,444
Income taxes payable	1,652	4,031
Total current liabilities	462,763	496,451
Noncurrent liabilities:		
Accrued workers' compensation costs	98,938	92,048
Deferred income taxes	—	4,075
Total noncurrent liabilities	98,938	96,123
Commitments and contingencies		
Stockholders' equity:		
Common stock	308	308
Additional paid-in capital	142,681	137,769
Treasury stock, at cost	(176,817)	(148,465)
Accumulated other comprehensive income, net of tax	—	3
Retained earnings	225,175	214,481
Total stockholders' equity	191,347	204,096
Total liabilities and stockholders' equity	$753,048	$796,670

See accompanying notes.

Table of Contents

INSPERITY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Revenues (gross billings of $3.703 billion, $3.281 billion, $7.643 billion and $6.869 billion less worksite employee payroll cost of $3.075 billion, $2.716 billion, $6.316 billion and $5.667 billion, respectively)	$627,838	$564,621	$1,327,317	$1,201,620
Direct costs:				
Payroll taxes, benefits and workers' compensation costs	523,619	469,168	1,093,238	999,991
Gross profit	104,219	95,453	234,079	201,629
Operating expenses:				
Salaries, wages and payroll taxes	50,234	47,829	106,982	98,861
Stock-based compensation	4,041	3,245	6,464	5,645
Commissions	4,103	3,717	8,407	6,963
Advertising	7,389	8,356	11,107	13,297
General and administrative expenses	20,332	21,116	44,387	43,848
Impairment charges and other	1,313	2,485	11,120	2,485
Depreciation and amortization	4,590	5,291	9,875	10,525
	92,002	92,039	198,342	181,624
Operating income	12,217	3,414	35,737	20,005
Other income (expense):				
Interest, net	(8)	24	(1)	71
Other, net	(32)	12	(32)	(14)
Income before income tax expense	12,177	3,450	35,704	20,062
Income tax expense	4,863	1,559	14,603	8,607
Net income	$7,314	$1,891	$21,101	$11,455
Less distributed and undistributed earnings allocated to participating securities	(179)	(139)	(521)	(333)
Net income allocated to common shares	$7,135	$1,752	$20,580	$11,122
Basic net income per share of common stock	$0.29	$0.07	$0.83	$0.45
Diluted net income per share of common stock	$0.29	$0.07	$0.83	$0.45

See accompanying notes.

- 5 -

Table of Contents

INSPERITY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$7,314	$1,891	$21,101	$11,455
Other comprehensive income:				
Unrealized gain (loss) on available-for-sale securities, net of tax	(5)	15	(3)	12
Comprehensive income	$7,309	$1,906	$21,098	$11,467

See accompanying notes.

Table of Contents

INSPERITY, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2015
(in thousands)
(Unaudited)

	Common Stock Issued		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount					
Balance at December 31, 2014	30,758	$308	$137,769	$(148,465)	$ 3	$214,481	$204,096
Purchase of treasury stock, at cost	—	—	—	(33,468)	—	—	(33,468)
Exercise of stock options	—	—	(3)	377	—	—	374
Income tax benefit from stock-based compensation, net	—	—	2,507	—	—	—	2,507
Stock-based compensation expense	—	—	2,150	4,314	—	—	6,464
Other	—	—	258	425	—	—	683
Dividends paid	—	—	—	—	—	(10,407)	(10,407)
Unrealized loss on marketable securities, net of tax	—	—	—	—	(3)	—	(3)
Net income	—	—	—	—	—	21,101	21,101
Balance at June 30, 2015	30,758	$308	$142,681	$(176,817)	$ —	$225,175	$191,347

See accompanying notes.

Table of Contents

INSPERITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$21,101	$11,455
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,875	10,525
Impairment charges and other	11,120	2,485
Amortization of marketable securities	629	1,006
Stock-based compensation	6,464	5,645
Deferred income taxes	(5,250)	4,775
Changes in operating assets and liabilities:		
Restricted cash	(4,847)	(1,513)
Accounts receivable	(90,515)	(12,886)
Prepaid insurance	4,842	(14,175)
Other current assets	2,127	(1,023)
Other assets	3,136	(8,114)
Accounts payable	(2,291)	(857)
Payroll taxes and other payroll deductions payable	(53,466)	(56,440)
Accrued worksite employee payroll expense	35,695	14,839
Accrued health insurance costs	(12,045)	16,221
Accrued workers' compensation costs	12,139	5,872
Accrued corporate payroll, commissions and other accrued liabilities	(7,349)	366
Income taxes payable/receivable	(2,844)	(7,557)
Total adjustments	(92,580)	(40,831)
Net cash used in operating activities	(71,479)	(29,376)
Cash flows from investing activities:		
Marketable securities:		
Purchases	(5,379)	(13,022)
Proceeds from dispositions	6,877	—
Proceeds from maturities	4,851	14,944
Property and equipment	(5,850)	(6,634)
Net cash provided by (used in) investing activities	499	(4,712)

Table of Contents

INSPERITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(in thousands)
(Unaudited)

	Six Months Ended June 30, 2015	2014
Cash flows from financing activities:		
Purchase of treasury stock	$(31,370)	$(14,740)
Dividends paid	(10,407)	(9,203)
Proceeds from the exercise of stock options	374	253
Income tax benefit from stock-based compensation	2,972	234
Other	683	678
Net cash used in financing activities	(37,748)	(22,778)
Net decrease in cash and cash equivalents	(108,728)	(56,866)
Cash and cash equivalents at beginning of period	276,456	225,755
Cash and cash equivalents at end of period	$167,728	$168,889

See accompanying notes.

Table of Contents

INSPERITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015
(Unaudited)

1. Basis of Presentation

Insperity, Inc., a Delaware corporation ("Insperity," "we," "our," and "us"), provides an array of human resources ("HR") and business solutions designed to help improve business performance. Our most comprehensive HR service offerings are provided through our professional employer organization ("PEO") services, known as Workforce Optimization® and Workforce Synchronization solutions (together, our "PEO HR Outsourcing solutions"), which encompass a broad range of HR functions, including payroll and employment administration, employee benefits, workers' compensation, government compliance, performance management, and training and development services.

In addition to our PEO HR Outsourcing solutions, we offer Human Capital Management, Payroll Services, Time and Attendance, Performance Management, Organizational Planning, Recruiting Services, Employment Screening, Financial and Expense Management Services, Retirement Services and Insurance Services (collectively "Strategic Businesses" and formerly known as "Adjacent Businesses"), many of which are offered via desktop applications or cloud-based delivery models. These other products and services are offered separately, in customizable bundles, or along with PEO HR Outsourcing solutions.

The Consolidated Financial Statements include the accounts of Insperity and its subsidiaries, all of which are wholly owned. Intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The accompanying Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements at and for the year ended December 31, 2014. Our Consolidated Balance Sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the information or footnotes required by GAAP for complete financial statements. Our Consolidated Balance Sheet at June 30, 2015 and our Consolidated Statements of Operations and Comprehensive Income for the three and six month periods ended June 30, 2015 and 2014, our Consolidated Statements of Cash Flows for the six month periods ended June 30, 2015 and 2014, and our Consolidated Statement of Stockholders' Equity for the six month period ended June 30, 2015, have been prepared by us without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows, have been made. Certain prior year amounts have been reclassified to conform to the 2015 presentation.

The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations.

2. Accounting Policies

Health Insurance Costs

We provide group health insurance coverage to our worksite employees through a national network of carriers, including UnitedHealthcare ("United"), UnitedHealthcare of California, Kaiser Permanente, Blue Shield of California, HMSA BlueCross BlueShield, Unity Health Plan and Tufts, all of which provide fully insured policies or service contracts.

The policy with United provides the majority of our health insurance coverage. As a result of certain contractual terms, we have accounted for this plan since its inception using a partially self-funded insurance accounting model. Accordingly, we record the costs of the United plan, including an estimate of the incurred claims, taxes and administrative fees (collectively the "Plan Costs") as benefits expense in our Consolidated Statements of Operations. The estimated incurred claims are based upon: (i) the level of claims processed during the quarter; (ii) estimated completion rates based upon recent claim development patterns under the plan; and (iii) the number of participants in the plan, including both active and COBRA

Table of Contents

enrollees. Each reporting period, changes in the estimated ultimate costs resulting from claim trends, plan design and migration, participant demographics and other factors are incorporated into the Plan Costs.

Additionally, since the plan's inception, under the terms of the contract, United establishes cash funding rates 90 days in advance of the beginning of a reporting quarter. If the Plan Costs for a reporting quarter are greater than the premiums paid and owed to United, a deficit in the plan would be incurred and a liability for the excess costs would be accrued in our Consolidated Balance Sheets. On the other hand, if the Plan Costs for the reporting quarter are less than the premiums paid and owed to United, a surplus in the plan would be incurred and we would record an asset for the excess premiums in our Consolidated Balance Sheets. The terms of the arrangement require us to maintain an accumulated cash surplus in the plan of $9.0 million, which is reported as long-term prepaid insurance. In addition, United requires a deposit equal to approximately one day of claims funding activity, which was $3.5 million as of June 30, 2015, and is reported as a long-term asset. As of June 30, 2015, Plan Costs were less than the net premiums paid and owed to United by $15.0 million. As this amount is in excess of the agreed-upon $9.0 million surplus maintenance level, the $6.0 million balance is included in prepaid insurance, a current asset, in our Consolidated Balance Sheets. The premiums owed to United at June 30, 2015 were $2.6 million, which is included in accrued health insurance costs, a current liability in our Consolidated Balance Sheets.

Workers' Compensation Costs

Our workers' compensation coverage has been provided through an arrangement with the ACE Group of Companies (the "ACE Program") since 2007. The ACE Program is fully insured in that ACE has the responsibility to pay all claims incurred regardless of whether we satisfy our responsibilities. We bear the economic burden for the first $1 million layer of claims per occurrence, as well as a maximum aggregate amount of $5 million per policy year for those claims that exceed $1 million. The insurance carrier bears responsibility for the claims in excess of such amounts.

Because we bear the economic burden for claims up to the levels noted above, such claims, which are the primary component of our workers' compensation costs, are recorded in the period incurred. Workers' compensation insurance includes ongoing health care and indemnity coverage whereby claims are paid over numerous years following the date of injury. Accordingly, the accrual of related incurred costs in each reporting period includes estimates, which take into account the ongoing development of claims and therefore requires a significant level of judgment.

We employ a third party actuary to estimate our loss development rate, which is primarily based upon the nature of worksite employees' job responsibilities, the location of worksite employees, the historical frequency and severity of workers' compensation claims, and an estimate of future cost trends. Each reporting period, changes in the actuarial assumptions resulting from changes in actual claims experience and other trends are incorporated into our workers' compensation claims cost estimates. During the six months ended June 30, 2014, we reduced our workers' compensation costs by $2.0 million for changes in estimated losses related to prior reporting periods. Workers' compensation cost estimates are discounted to present value at a rate based upon the U.S. Treasury rates that correspond with the weighted average estimated claim payout period (the average discount rate utilized in the 2015 and 2014 periods was 1.0% in both periods) and are accreted over the estimated claim payment period and included as a component of direct costs in our Consolidated Statements of Operations.

Table of Contents

The following table presents the activity and balances related to incurred but not paid workers' compensation claims:

	Six Months Ended June 30, 2015	2014
	(in thousands)	
Beginning balance, January 1,	$136,088	$120,833
Accrued claims	32,720	25,041
Present value discount	(1,189)	(898)
Paid claims	(19,794)	(18,572)
Ending balance	$147,825	$126,404
Current portion of accrued claims	$48,887	$53,441
Long-term portion of accrued claims	98,938	72,963
	$147,825	$126,404

The current portion of accrued workers' compensation costs on our Consolidated Balance Sheets at June 30, 2015 includes $2.0 million of workers' compensation administrative fees.

As of June 30, 2015 and 2014, the undiscounted accrued workers' compensation costs were $157.4 million and $136.3 million, respectively.

At the beginning of each policy period, the workers' compensation insurance carrier establishes monthly funding requirements comprised of premium costs and funds to be set aside for payment of future claims ("claim funds"). The level of claim funds is primarily based upon anticipated worksite employee payroll levels and expected workers' compensation loss rates, as determined by the insurance carrier. Monies funded into the program for incurred claims expected to be paid within one year are recorded as restricted cash, a short-term asset, while the remainder of claim funds are included in deposits - workers' compensation, a long-term asset in our Consolidated Balance Sheets. During the first six months of 2015, we received $5.3 million for the return of excess claim funds related to the workers' compensation program. This resulted in a net decrease to deposits. As of June 30, 2015, we had restricted cash of $48.9 million and deposits - workers' compensation of $110.9 million.

Our estimate of incurred claim costs expected to be paid within one year is recorded as accrued workers' compensation costs and included in short-term liabilities, while our estimate of incurred claim costs expected to be paid beyond one year is recorded as accrued workers' compensation costs and included in long-term liabilities on our Consolidated Balance Sheets.

3. Cash, Cash Equivalents and Marketable Securities

The following table summarizes our cash and investments in cash equivalents and marketable securities held by investment managers and overnight investments:

	June 30, 2015	December 31, 2014
	(in thousands)	
Overnight Holdings		
Money market funds (cash equivalents)	$130,780	$271,840
Investment Holdings		
Money market funds (cash equivalents)	29,174	14,125
Marketable securities	21,648	28,631
	181,602	314,596
Cash held in demand accounts	17,852	20,369
Outstanding checks	(10,078)	(29,878)
Total cash, cash equivalents and marketable securities	$189,376	$305,087
Cash and cash equivalents	$167,728	$276,456
Marketable securities	21,648	28,631
Total cash, cash equivalents and marketable securities	$189,376	$305,087

Our cash and overnight holdings fluctuate based on the timing of clients' payroll processing cycles. Included in the cash, cash equivalents and marketable securities at June 30, 2015 and December 31, 2014, are $106.2 million and $152.1 million, respectively, of funds associated with federal and state income tax withholdings, employment taxes and other payroll deductions, as well as $19.4 million and $87.9 million in client prepayments, respectively.

We account for our financial assets in accordance with Accounting Standard Codification 820, Fair Value Measurement. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value measurement disclosures are grouped into three levels based on valuation factors:

- Level 1 - quoted prices in active markets using identical assets
- Level 2 - significant other observable inputs, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs
- Level 3 - significant unobservable inputs

The following table summarizes the levels of fair value measurements of our financial assets:

	Fair Value Measurements (in thousands)			
	June 30, 2015	Level 1	Level 2	Level 3
Money market funds	$159,954	$159,954	$—	$—
Municipal bonds	21,648	—	21,648	—
Total	$181,602	$159,954	$21,648	$—

- 13 -

Table of Contents

	Fair Value Measurements (in thousands) December 31, 2014	Level 1	Level 2	Level 3
Money market funds	$285,965	$285,965	$—	$—
Municipal bonds	28,631	—	28,631	—
Total	$314,596	$285,965	$28,631	$—

The municipal bond securities valued as Level 2 investments are primarily pre-refunded municipal bonds that are secured by escrow funds containing U.S. Government securities. Our valuation techniques used to measure fair value for these securities during the period consisted primarily of third party pricing services that utilized actual market data such as trades of comparable bond issues, broker/dealer quotations for the same or similar investments in active markets and other observable inputs.

The following is a summary of our available-for-sale marketable securities:

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Estimated Fair Value
June 30, 2015				
Municipal bonds	$21,649	$6	$(7)	$21,648
December 31, 2014				
Municipal bonds	$28,626	$16	$(11)	$28,631

As of June 30, 2015, the contractual maturities of our marketable securities were as follows:

	Amortized Cost (in thousands)	Estimated Fair Value
Less than one year	$13,992	$13,996
One to five years	7,657	7,652
Total	$21,649	$21,648

4. Assets Held for Sale

In the first quarter of 2015, we entered into a plan to sell our two aircraft, and as a result, reclassified the assets from property, plant and equipment to assets held for sale. We also recorded impairment and other charges of $9.8 million, which represents the difference between the carrying value and the estimated fair value and includes a provision for potential settlement of a Texas sales and use tax assessment. We received proceeds, net of selling costs, of $12.2 million for both aircraft in July 2015. As a result, we recorded an additional 1.3 million impairment charge in the second quarter of 2015. As of June 30, 2015, we had current deferred tax liabilities of $2.6 million related to these assets held for sale.

5. Goodwill and Other Intangible Assets

During the second quarter of 2014, impairment indicators were identified in our Employment Screening business, which is a discrete reporting unit, due to changes in management, the reporting unit’s financial results and the loss of certain customers. As a result, at that time, we performed impairment tests for our Employment Screening business’ long-lived assets

Table of Contents

and goodwill and concluded that the assets were impaired. The impairments resulted primarily from lower projected revenue growth rates and profitability levels. Accordingly, in the second quarter of 2014, we recognized intangible asset impairments of $0.7 million and, upon completion of step two of the goodwill impairment test, we recognized a goodwill impairment charge of $1.8 million. The fair values of the long-lived assets and reporting unit were estimated using discounted cash flow models, which we believed appropriately estimated the fair values of the long-lived assets and reporting unit. The material assumptions used in the models included the weighted average cost of capital and long-term growth rates. We considered these to be Level 3 fair value measures.

6. Revolving Credit Facility

We have a $125 million revolving credit facility (the “Facility”), which may be increased to $150 million based on the terms and subject to the conditions set forth in the agreement relating to the Facility (the “Credit Agreement”). The Facility matures in February 2020. The Facility contains both affirmative and negative covenants, which we believe are customary for arrangements of this nature. At June 30, 2015, we were in compliance with all financial covenants under the Credit Agreement and had not drawn on the Facility. As of June 30, 2015, we had an outstanding $0.6 million letter of credit issued under the Facility.

7. Stockholders' Equity

Our Board of Directors (the “Board”) has authorized a program to repurchase shares of our outstanding common stock (“Repurchase Program”). The purchases are to be made from time to time in the open market or directly from stockholders at prevailing market prices based on market conditions and other factors. In May 2015, the Board increased the authorized number of shares to be repurchased under the Repurchase Program by one million. During the six months ended June 30, 2015, 530,933 shares were repurchased under the Repurchase Program and 114,359 shares not subject to the Repurchase Program were withheld to satisfy tax withholding obligations for the vesting of restricted stock awards. As of June 30, 2015, we were authorized to repurchase an additional 1,237,832 shares under the Repurchase Program.

The Board declared quarterly dividends as follows:

	2015	2014
	(amounts per share)	
First quarter	$0.19	$0.17
Second quarter	0.22	0.19

During the six months ended June 30, 2015 and 2014, we paid dividends totaling $10.4 million and $9.2 million, respectively.

8. Long-Term Incentive Plan

On March 30, 2015, we adopted the Insperity, Inc. Long-Term Incentive Program (the “LTIP”) under the Insperity, Inc. 2012 Incentive Plan (the “Plan”). The LTIP provides for performance-based long-term compensation awards in the form of performance units to certain employees based on the achievement of pre-established performance goals.

Also on March 30, 2015, we granted performance units under the LTIP to our named executive officers and certain other officers. The total number of performance units granted based on the expected performance target level was 103,450. Each performance unit represents the right to receive one common share at a future date based on our performance against specified targets. Performance units have a vesting schedule of three years. The fair value of each performance unit is the market price of one common share on the date of grant. The compensation expense for such awards is recognized on a straight-line basis over the vesting terms. Over the performance period, the number of shares expected to be issued is adjusted upward or downward based upon the probability of achievement of the performance targets. The ultimate number of shares issued and the related compensation cost recognized is based on a comparison of the final performance metrics to the specified targets. As of June 30, 2015, the unrecognized compensation cost was $8.9 million.

9. Net Income per Share

Table of Contents

We utilize the two-class method to compute net income per share. The two-class method allocates a portion of net income to participating securities, which include unvested awards of share-based payments with non-forfeitable rights to receive dividends. Net income allocated to unvested share-based payments is excluded from net income allocated to common shares. Any undistributed losses resulting from dividends exceeding net income are not allocated to participating securities. Basic net income per share is computed by dividing net income allocated to common shares by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income allocated to common shares by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock options.

The following table summarizes the net income allocated to common shares and the basic and diluted shares used in the net income per share computations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Net income	$7,314	$1,891	$21,101	$11,455
Less distributed and undistributed earnings allocated to participating securities	(179)	(139)	(521)	(333)
Net income allocated to common shares	$7,135	$1,752	$20,580	$11,122
Weighted average common shares outstanding	24,766	24,770	24,741	24,797
Incremental shares from assumed conversions of common stock options	7	4	8	5
Adjusted weighted average common shares outstanding	24,773	24,774	24,749	24,802
Potentially dilutive securities not included in weighted average share calculation due to anti-dilutive effect	—	—	—	—

10. Commitments and Contingencies

We are a defendant in various lawsuits and claims arising in the normal course of business. Management believes it has valid defenses in these cases and is defending them vigorously. While the results of litigation cannot be predicted with certainty, management believes the final outcome of such litigation will not have a material adverse effect on our financial position or results of operations.

Federal Unemployment Taxes

Employers in certain states are experiencing higher Federal Unemployment Tax Act (“FUTA”) tax rates as a result of certain states not repaying their unemployment loans from the federal government in a timely manner. The Benefit Cost Ratio Add-On (“BCR”) is an additional tax on the FUTA wage base for employers in states that continue to have outstanding federal unemployment insurance loans beginning with the fifth year in which there is a balance due on the loan. States have the option to apply for a waiver before July 1st of the year in which the BCR is applicable. Five states are at risk for assessment of the BCR in 2015. We expect most states will be notified by the federal government in the third quarter of 2015 if a waiver has been granted in response to the state’s application. Accordingly, the potential additional FUTA tax associated with worksite employees in these five states was approximately $3.1 million as of June 30, 2015.

Generally, our contractual agreements allow us to incorporate such increases into our service fees upon the effective date of the rate change. However, our ability to fully adjust service fees in our billing systems and collect such increases over the remaining term of the customers' contracts could be limited, resulting in a potential tax increase not being fully recovered. As a result, if these FUTA tax increases are instituted and not collected from our clients, such increases could have a material adverse effect on our financial condition or results of operations.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014, as well as our Consolidated Financial Statements and notes thereto included in this quarterly report on Form 10-Q.

Results of Operations

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014.

The following table presents certain information related to our results of operations:

	Three Months Ended June 30,		
	2015	2014	% Change
	(in thousands, except per share and statistical data)		
Revenues (gross billings of $3.703 billion and $3.281 billion, less worksite employee payroll cost of $3.075 billion and $2.716 billion, respectively)	$627,838	$564,621	11.2 %
Gross profit	104,219	95,453	9.2 %
Operating expenses	92,002 (1)	92,039 (2)	—
Operating income	12,217	3,414	257.9 %
Other income (expense)	(40)	36	(211.1)%
Net income	7,314	1,891	286.8 %
Diluted net income per share of common stock	0.29	0.07	314.3 %
Adjusted net income[3]	10,771	5,235	105.7 %
Adjusted diluted net income per share of common stock[3]	0.42	0.20	110.0 %
Adjusted EBITDA[3]	22,643	14,559	55.5 %
Statistical Data:			
Average number of worksite employees paid per month	143,131	128,274	11.6 %
Revenues per worksite employee per month[4]	$1,462	$1,467	(0.3)%
Gross profit per worksite employee per month	243	248	(2.0)%
Operating expenses per worksite employee per month	215	239	(10.0)%
Operating income per worksite employee per month	28	9	211.1 %
Net income per worksite employee per month	17	5	240.0 %

(1) Includes non-cash impairment and other charges of $1.3 million, or $0.03 per share. Please read Note 4 to the Consolidated Financial Statements, "Assets Held for Sale," for additional information.

(2) Includes a non-cash impairment charge of $2.5 million, or $0.06 per share. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

(3) Please read "Non-GAAP Financial Measures" for a reconciliation of the non-GAAP financial measures to their most directly comparable financial measures calculated and presented in accordance with GAAP.

(4) Gross billings of $8,623 and $8,526 per worksite employee per month, less payroll cost of $7,161 and $7,059 per worksite employee per month, respectively.

Table of Contents

Revenues

Our revenues for the second quarter of 2015 increased 11.2% over the 2014 period, primarily due to an 11.6% increase in the average number of worksite employees paid per month, partially offset by a 0.3%, or $5, decrease in revenues per worksite employee per month.

We provide our PEO HR Outsourcing solutions to small and medium-sized businesses in strategically selected markets throughout the United States. By region, our PEO HR Outsourcing solutions revenue change from the second quarter of 2014 and distribution for the quarters ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,				Three Months Ended June 30,				
	2015	2014	% Change		2015		2014		
	(in thousands)				(% of total revenue)				
Northeast	$159,834	$143,436	11.4	%	26.0	%	25.9	%
Southeast	62,984	55,210	14.1	%	10.2	%	10.0	%
Central	94,212	79,618	18.3	%	15.3	%	14.4	%
Southwest	157,586	151,238	4.2	%	25.6	%	27.3	%
West	141,302	124,903	13.1	%	22.9	%	22.4	%
	615,918	554,405	11.1	%	100.0	%	100.0	%
Other revenue[1]	11,920	10,216	16.7	%				
Total revenue	$627,838	$564,621	11.2	%				

[1] Comprised primarily of revenues generated by our Strategic Businesses.

The percentage of total PEO HR Outsourcing solutions revenues in our significant markets include the following:

	Three Months Ended June 30,			
	2015		2014	
Texas	23.8	%	25.2	%
California	18.1	%	17.7	%
New York	9.4	%	9.6	%
Other	48.7	%	47.5	%
Total	100.0	%	100.0	%

Our growth in the number of worksite employees paid is affected by three primary sources: new client sales, client retention and the net change in existing clients through worksite employee new hires and layoffs. During the second quarter of 2015, we saw improvement in worksite employees paid from each of these sources as compared to the second quarter of 2014.

Gross Profit

Gross profit for the second quarter of 2015 increased 9.2% over the second quarter of 2014 to $104.2 million. The average gross profit per worksite employee decreased 2.0% to $243 per month in the 2015 period from $248 per month in the 2014 period. Included in gross profit in the 2015 period is an $18 per worksite employee per month contribution from our Strategic Businesses compared to $17 per worksite employee per month in the 2014 period.

Our pricing objectives attempt to maintain or improve the gross profit per worksite employee by increasing revenue per worksite employee to match or exceed changes in primary direct costs and operating expenses. Our revenues during the second quarter of 2015 decreased 0.3% per worksite employee per month compared to the second quarter of 2014. Our direct costs, which primarily include payroll taxes, benefits and workers' compensation expenses, were $1,219 per worksite employee per month in both the second quarters of 2015 and 2014. The primary direct cost components changed as follows:

Table of Contents

- Benefits costs – The cost of group health insurance and related employee benefits decreased $8 per worksite employee per month, but increased 0.4% on a cost per covered employee basis, compared to the second quarter of 2014. Our benefits costs incurred in the second quarter of 2015 reflect favorable claim trends due to a reduction in both large claims and COBRA participation levels. The percentage of worksite employees covered under our health insurance plans was 70.5% in the 2015 period compared to 71.6% in the 2014 period. Please read Note 2 to the Consolidated Financial Statements, "Accounting Policies – Health Insurance Costs," for a discussion of our accounting for health insurance costs.

- Workers' compensation costs – Workers' compensation costs increased 25.0%, or $5 per worksite employee per month, compared to the second quarter of 2014, primarily due to higher incurred claim levels. As a percentage of non-bonus payroll cost, workers' compensation costs were 0.68% in the 2015 period compared to 0.62% in the 2014 period. Please read Note 2 to the Consolidated Financial Statements, "Accounting Policies – Workers' Compensation Costs," for a discussion of our accounting for workers' compensation costs.

- Payroll tax costs – Payroll taxes increased 12.3%, or $3 per worksite employee per month, compared to the second quarter of 2014, primarily due to a 13.2% increase in payroll costs. Payroll taxes as a percentage of payroll cost were 7.0% in both the 2015 and the 2014 periods.

Operating Expenses

The following table presents certain information related to our operating expenses:

	Three Months Ended June 30,			Three Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(per worksite employee per month)		
Salaries, wages and payroll taxes	$50,234	$47,829	5.0 %	$117	$124	(5.6)%
Stock-based compensation	4,041	3,245	24.5 %	9	8	12.5 %
Commissions	4,103	3,717	10.4 %	10	10	—
Advertising	7,389	8,356	(11.6)%	17	22	(22.7)%
General and administrative expenses	20,332	21,116	(3.7)%	48	55	(12.7)%
Impairment charges and other	1,313	2,485	(47.2)%	3	6	(50.0)%
Depreciation and amortization	4,590	5,291	(13.2)%	11	14	(21.4)%
Total operating expenses	$92,002	$92,039	—	$215	$239	(10.0)%

Operating expenses were flat compared to the second quarter of 2014. We recorded $1.3 million of impairment and other charges in the second quarter of 2015. Please read Note 4 to the Consolidated Financial Statements, "Assets Held for Sale," for additional information. We recorded impairment charges of $2.5 million in our Employment Screening reporting unit in the second quarter of 2014. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information. Adjusted operating expenses increased 0.8% to $90.3 million compared to $89.6 million in the second quarter of 2014. Please read "Non-GAAP Financial Measures," for additional information. Operating expenses per worksite employee per month decreased to $215 in the 2015 period from $239 in the 2014 period. The components of operating expenses changed as follows:

- Salaries, wages and payroll taxes of corporate and sales staff increased 5.0%, but decreased $7 on a per worksite employee per month basis, compared to the 2014 period. This increase was primarily due to higher incentive compensation accruals as a result of improved operating results and a 1.3% increase in headcount.

- Stock-based compensation increased 24.5%, or $1 per worksite employee per month, compared to the 2014 period. This increase was primarily due to awards issued under the new Insperity, Inc. Long-Term Incentive Program (the "LTIP"). Please read Note 8 to the Consolidated Financial Statements, "Long-Term Incentive Plan," for additional information.

- Commissions expense increased 10.4%, but remained flat on a per worksite employee per month basis, compared to the 2014 period.

Table of Contents

- Advertising costs decreased 11.6%, or $5 per worksite employee per month, compared to the 2014 period, primarily due to reduced spending on radio and television advertising.

- General and administrative expenses decreased 3.7%, or $7 per worksite employee per month, compared to the 2014 period, primarily due to lower spending on professional fees and travel and training expenses.

- Impairment and other charges consist of a $1.3 million charge representing the difference between the carrying value of the aircraft and their fair value in the 2015 period. Please read Note 4 to the Consolidated Financial Statements, "Assets Held for Sale" for additional information. In the 2014 period, impairment and other charges consist of a $2.5 million impairment charge related to our Employment Screening business. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

- Depreciation and amortization expense decreased 13.2%, or $3 per worksite employee per month compared to the 2014 period, primarily due to the reclassification of our two aircraft from property, plant and equipment to assets held for sale and the related depreciation on those assets no longer being recognized. Please read Note 4 to the Consolidated Financial Statements, "Assets Held for Sale," for additional information.

Income Tax Expense

Our effective income tax rate was 39.9% in the 2015 period compared to 45.2% in the 2014 period. Our provision for income taxes differed from the U.S. statutory rate of 35% primarily due to state income taxes, non-deductible expenses, and the effects of the impairment charge recorded during the period. The effect of the non-cash impairment charges on the income tax rate for the 2014 period was 3.5%.

Operating and Net Income

Operating and net income per worksite employee per month was $28 and $17 in the 2015 period, versus $9 and $5 in the 2014 period.

Table of Contents

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014.

The following table presents certain information related to our results of operations:

	Six Months Ended June 30, 2015	2014	% Change
	(in thousands, except per share and statistical data)		
Revenues (gross billings of $7.643 billion and $6.869 billion, less worksite employee payroll cost of $6.316 billion and $5.667 billion, respectively)	$1,327,317	$1,201,620	10.5 %
Gross profit	234,079	201,629	16.1 %
Operating expenses	198,342 (1)	181,624 (2)	9.2 %
Operating income	35,737	20,005	78.6 %
Other income (expense)	(33)	57	(157.9)%
Net income	21,101	11,455	84.2 %
Diluted net income per share of common stock	0.83	0.45	84.4 %
Adjusted net income(3)	32,407	16,244	99.5 %
Adjusted diluted net income per share of common stock(3)	1.28	0.64	100.0 %
Adjusted EBITDA(3)	64,933	38,894	66.9 %
Statistical Data:			
Average number of worksite employees paid per month	140,545	127,281	10.4 %
Revenues per worksite employee per month(4)	$1,574	$1,573	0.1 %
Gross profit per worksite employee per month	278	264	5.3 %
Operating expenses per worksite employee per month	236	238	(0.8)%
Operating income per worksite employee per month	42	26	61.5 %
Net income per worksite employee per month	25	15	66.7 %

(1) Includes non-cash impairment and other charges of $11.1 million, or $0.26 per share. Please read Note 4 to the Consolidated Financial Statements, “Assets Held for Sale,” for additional information.

(2) Includes a non-cash impairment charge of $2.5 million, or $0.06 per share. Please read Note 5 to the Consolidated Financial Statements, “Goodwill and Other Intangible Assets,” for additional information.

(3) Please read “Non-GAAP Financial Measures” for a reconciliation of the non-GAAP financial measures to their most directly comparable financial measures calculated and presented in accordance with GAAP.

(4) Gross billings of $9,064 and $8,994 per worksite employee per month, less payroll cost of $7,490 and $7,421 per worksite employee per month, respectively.

Revenues

Our revenues for the six months ended June 30, 2015 increased 10.5% over the 2014 period, primarily due to a 10.4% increase in the average number of worksite employees paid per month and a 0.1%, or $1, increase in revenues per worksite employee per month.

- 21 -

Table of Contents

We provide our PEO HR Outsourcing solutions to small and medium-sized businesses in strategically selected markets throughout the United States. By region, our PEO HR Outsourcing solutions revenue change from the first six months of 2014 and distribution for the six months ended June 30, 2015 and 2014 were as follows:

	Six Months Ended June 30,			Six Months Ended June 30,	
	2015	2014	% Change	2015	2014
	(in thousands)			(% of total revenue)	
Northeast	$344,196	$309,298	11.3 %	26.4 %	26.2 %
Southeast	129,546	115,835	11.8 %	9.9 %	9.8 %
Central	198,829	170,016	16.9 %	15.2 %	14.4 %
Southwest	334,233	320,752	4.2 %	25.6 %	27.1 %
West	297,396	266,059	11.8 %	22.9 %	22.5 %
	1,304,200	1,181,960	10.3 %	100.0 %	100.0 %
Other revenue[(1)]	23,117	19,660	17.6 %		
Total revenue	$1,327,317	$1,201,620	10.5 %		

[(1)] Comprised primarily of revenues generated by our Strategic Businesses.

The percentage of total PEO HR Outsourcing solutions revenues in our significant markets include the following:

	Six Months Ended June 30,	
	2015	2014
Texas	23.9 %	25.1 %
California	18.1 %	17.8 %
New York	9.8 %	9.9 %
Other	48.2 %	47.2 %
Total	100.0 %	100.0 %

Our growth in the number of worksite employees paid is affected by three primary sources: new client sales, client retention and the net change in existing clients through worksite employee new hires and layoffs. During the first six months of 2015, we saw improvement in worksite employees paid from new client sales and client retention, while the net change in existing clients remained consistent with the first six months of 2014.

Gross Profit

Gross profit for the first six months of 2015 increased 16.1% compared to the first six months of 2014 to $234.1 million. The average gross profit per worksite employee increased 5.3% to $278 per month in the 2015 period from $264 per month in the 2014 period. Included in gross profit in 2015 is a $17 per worksite employee per month contribution from our Strategic Businesses compared to $16 per worksite employee per month in the 2014 period.

Our pricing objectives attempt to maintain or improve the gross profit per worksite employee by increasing revenue per worksite employee to match or exceed changes in primary direct costs and operating expenses. Our revenues during the first six months of 2015 increased 0.1% per worksite employee per month as compared to the first six months of 2014. However, our direct costs, which primarily include payroll taxes, benefits and workers' compensation expenses, decreased 1.0% to $1,296 per worksite employee per month compared to $1,309 in the first six months of 2014. The primary direct cost components changed as follows:

Benefits costs – The cost of group health insurance and related employee benefits decreased $18 per worksite employee per month, or 1.3% on a cost per covered employee basis, compared to the first six months of 2014. Our benefits costs incurred in the first six months of 2015 reflect favorable claim trends due to a reduction in both large claims and COBRA participation levels. The percentage of worksite employees covered under our health insurance plans was

Table of Contents

71.0% in the 2015 period compared to 72.0% in the 2014 period. Please read Note 2 to the Consolidated Financial Statements, "Accounting Policies – Health Insurance Costs," for a discussion of our accounting for health insurance costs.

- Workers' compensation costs – Workers' compensation costs increased 23.9%, or $5 per worksite employee per month, compared to the first six months of 2014, primarily due to higher incurred claim levels. As a percentage of non-bonus payroll cost, workers' compensation costs were 0.70% in the 2015 period compared to 0.63% in the 2014 period. Please read Note 2 to the Consolidated Financial Statements, "Accounting Policies – Workers' Compensation Costs," for a discussion of our accounting for workers' compensation costs.

- Payroll tax costs – Payroll taxes increased 10.5%, but remained flat on a per worksite employee per month basis, compared to the first six months of 2014, primarily due to an 11.4% increase in payroll costs, partially offset by lower unemployment tax rates. Payroll taxes as a percentage of payroll cost were 7.9% in the 2015 period and 8.0% in the 2014 period.

Operating Expenses

The following table presents certain information related to our operating expenses:

	Six Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)			(per worksite employee per month)		
Salaries, wages and payroll taxes	$106,982	$98,861	8.2 %	$127	$129	(1.6)%
Stock-based compensation	6,464	5,645	14.5 %	8	7	14.3 %
Commissions	8,407	6,963	20.7 %	10	9	11.1 %
Advertising	11,107	13,297	(16.5)%	13	18	(27.8)%
General and administrative expenses	44,387	43,848	1.2 %	53	58	(8.6)%
Impairment charges and other	11,120	2,485	347.5 %	13	3	333.3 %
Depreciation and amortization	9,875	10,525	(6.2)%	12	14	(14.3)%
Total operating expenses	$198,342	$181,624	9.2 %	$236	$238	(0.8)%

Operating expenses increased 9.2% to $198.3 million compared to $181.6 million in the first six months of 2014. We recorded $11.1 million of impairment and other charges in the first six months of 2015. Please read Note 4 to the Consolidated Financial Statements, "Assets Held for Sale," for additional information. We recorded impairment charges of $2.5 million in our Employment Screening reporting unit in the first six months of 2014. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information. Adjusted operating expenses increased 3.6% to $185.7 million from to $179.1 million in the first six months of 2014. Please read "Non-GAAP Financial Measures," for additional information. Operating expenses per worksite employee per month decreased to $236 in the 2015 period from $238 in the 2014 period. The components of operating expenses changed as follows:

- Salaries, wages and payroll taxes of corporate and sales staff increased 8.2%, but decreased $2 on a per worksite employee per month basis, compared to the 2014 period. This increase was primarily due to higher incentive compensation accruals as a result of improved operating results and a 1.1% rise in headcount.

- Stock-based compensation increased 14.5%, or $1 per worksite employee per month, compared to the 2014 period. This increase was primarily due to awards issued under the new LTIP. Please read Note 8 to the Consolidated Financial Statements, "Long-Term Incentive Plan," for additional information.

- Commissions expense increased 20.7%, or $1 per worksite employee per month, compared to the 2014 period, primarily due to commissions associated with our PEO HR Outsourcing solutions.

- Advertising costs decreased 16.5%, or $5 per worksite employee per month, compared to the 2014 period, primarily due to reduced spending on radio and television advertising.

Table of Contents

- General and administrative expenses, which includes $1.5 million in stockholder advisory expenses in the 2015 period, increased 1.2%, but decreased $5 per worksite employee per month compared to the 2014 period.

- Impairment and other charges consist of an $11.1 million charge representing the difference between the carrying value of the aircraft and their fair value, and includes a provision for potential settlement of a Texas sales and use tax assessment in the 2015 period. Please read Note 4 to the Consolidated Financial Statements, "Assets Held for Sale" for additional information. In the 2014 period, impairment and other charges consist of a $2.5 million impairment charge related to our Employment Screening business. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

- Depreciation and amortization expense decreased 6.2%, or $2 per worksite employee per month compared to the 2014 period, primarily due to the reclassification of our two aircraft from property, plant and equipment to assets held for sale and the related depreciation on those assets no longer being recognized. Please read Note 4 to the Consolidated Financial Statements, "Assets Held for Sale," for additional information.

Income Tax Expense

Our effective income tax rate was 40.9% in the 2015 period compared to 42.9% in the 2014 period. Our provision for income taxes differed from the U.S. statutory rate of 35% primarily due to state income taxes, non-deductible expenses, and the effects of the impairment charges recorded during the period. The effect of the non-cash impairment charges on the income tax rate for the 2014 period was 0.7%.

Operating and Net Income

Operating and net income per worksite employee per month was $42 and $25 in the 2015 period, versus $26 and $15 in the 2014 period.

Non-GAAP Financial Measures

Non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of the non-GAAP financial measures used to their most directly comparable GAAP financial measures as provided in the tables below.

Non-bonus payroll cost is a non-GAAP financial measure that excludes the impact of bonus payrolls paid to our worksite employees. Bonus payroll cost varies from period to period, but has no direct impact to our ultimate workers' compensation costs under the current program. As a result, our management refers to non-bonus payroll cost in analyzing, reporting and forecasting our workers' compensation costs. We include these non-GAAP financial measures because we believe they are useful to investors in allowing for greater transparency related to the costs incurred under our current workers' compensation program.

Table of Contents

Following is a GAAP to non-GAAP reconciliation of non-bonus payroll costs:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except per worksite employee per month data)					
GAAP to non-GAAP reconciliation:						
Payroll cost (GAAP)	$3,074,892	$2,716,514	13.2 %	$6,315,874	$5,667,082	11.4 %
Less: Bonus payroll cost	257,367	222,005	15.9 %	775,870	743,346	4.4 %
Non-bonus payroll cost	$2,817,525	$2,494,509	12.9 %	$5,540,004	$4,923,736	12.5 %
Payroll cost per worksite employee per month (GAAP)	$7,161	$7,059	1.4 %	$7,490	$7,421	0.9 %
Less: Bonus payroll cost per worksite employee per month	599	577	3.8 %	920	973	(5.4)%
Non-bonus payroll cost per worksite employee per month	$6,562	$6,482	1.2 %	$6,570	$6,448	1.9 %

Adjusted cash, cash equivalents and marketable securities excludes funds associated with federal and state income tax withholdings, employment taxes and other payroll deductions, as well as client prepayments. Insperity management believes adjusted cash, cash equivalents and marketable securities is a useful measure of the company's available funds.

Following is a GAAP to non-GAAP reconciliation of cash, cash equivalents and marketable securities:

	June 30, 2015	December 31, 2014
	(in thousands)	
Cash, cash equivalents and marketable securities (GAAP)	$189,376	$305,087
Less: Amounts payable for withheld federal and state income taxes, employment taxes and other payroll deductions	106,169	152,132
Customer prepayments	19,376	87,887
Adjusted cash, cash equivalents and marketable securities	$63,831	$65,068

Adjusted working capital represents working capital excluding assets held for sale that are classified as current assets and their associated current deferred tax liabilities. Insperity management believes adjusted working capital is a useful measure of the company's liquidity, as it allows for additional analysis of the company's liquidity separate from the impact of this item.

Following is a GAAP to non-GAAP reconciliation of working capital and adjusted working capital:

	June 30, 2015	December 31, 2014

	(in thousands)	
Working capital (GAAP)	$88,831	$73,058
Less: Assets held for sale, net of current deferred tax liabilities	9,533	—
Adjusted working capital	$79,298	$73,058

Adjusted operating expenses represent operating expenses excluding the impact of impairment and other charges related to the valuation of aircraft held for sale and stockholder advisory expenses in 2015 and an impairment charge associated with our Employment Screening reporting unit in 2014. Insperity management believes adjusted operating expenses is a useful

Table of Contents

measure of our operating costs, as it allows for additional analysis of our operating expenses separate from the impact of these items.

Following is a GAAP to non-GAAP reconciliation of operating expenses and adjusted operating expenses:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)					
Operating expenses (GAAP)	$92,002	$92,039	—	$198,342	$181,624	9.2%
Less: Impairment charges and other	1,313	2,485	(47.2)%	11,120	2,485	347.5%
Stockholder advisory expenses	398	—	—	1,546	—	—
Adjusted operating expenses	$90,291	$89,554	0.8%	$185,676	$179,139	3.6%

EBITDA represents net income computed in accordance with GAAP, plus interest expense, income tax expense and depreciation and amortization expense. Adjusted EBITDA represents EBITDA plus non-cash impairment and other charges, non-cash stock-based compensation and stockholder advisory expenses. Our management believes EBITDA and Adjusted EBITDA are often useful measures of our operating performance, as they allow for additional analysis of our operating results separate from the impact of these items.

Following is a GAAP to non-GAAP reconciliation of EBITDA and Adjusted EBITDA:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)					
Net income (GAAP)	$7,314	$1,891	286.8%	$21,101	$11,455	84.2%
Income tax expense	4,863	1,559	211.9%	14,603	8,607	69.7%
Interest expense	124	88	40.9%	224	177	26.6%
Depreciation and amortization	4,590	5,291	(13.2)%	9,875	10,525	(6.2)%
EBITDA	16,891	8,829	91.3%	45,803	30,764	48.9%
Impairment charges and other	1,313	2,485	(47.2)%	11,120	2,485	347.5%
Stock-based compensation	4,041	3,245	24.5%	6,464	5,645	14.5%
Stockholder advisory expenses	398	—	—	1,546	—	—
Adjusted EBITDA	$22,643	$14,559	55.5%	$64,933	$38,894	66.9%

Adjusted net income and adjusted diluted net income per share of common stock represent net income and diluted net income per share computed in accordance with GAAP, excluding the impact of non-cash impairment and other charges related to the valuation of aircraft held for sale in 2015 and an impairment charge associated with our Employment Screening reporting unit in 2014, expenses related to stockholder advisory expenses and non-cash stock-based compensation. Our management believes adjusted net income and adjusted diluted net income per share of common stock are useful measures of our operating performance, as they allow for additional analysis of our operating results separate from the impact of these items.

Table of Contents

Following is a GAAP to non-GAAP reconciliation of adjusted net income:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)					
Net income (GAAP)	$7,314	$1,891	286.8 %	$21,101	$11,455	84.2 %
Impairment charges and other, net of tax	789	1,566	(49.6)%	6,572	1,566	319.7 %
Stock-based compensation, net of tax	2,429	1,778	36.6 %	3,820	3,223	18.5 %
Stockholder advisory expenses, net of tax	239	—	—	914	—	—
Adjusted net income	$10,771	$5,235	105.7 %	$32,407	$16,244	99.5 %

Following is a GAAP to non-GAAP reconciliation of adjusted diluted net income per share of common stock:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands)					
Diluted net income per share of common stock (GAAP)	$0.29	$0.07	314.3 %	$0.83	$0.45	84.4 %
Impairment charges and other, net of tax	0.03	0.06	(50.0)%	0.26	0.06	333.3 %
Stock-based compensation, net of tax	0.09	0.07	28.6 %	0.15	0.13	15.4 %
Stockholder advisory expenses, net of tax	0.01	—	—	0.04	—	—
Adjusted diluted net income per share of common stock	$0.42	$0.20	110.0 %	$1.28	$0.64	100.0 %

Liquidity and Capital Resources

We periodically evaluate our liquidity requirements, capital needs and availability of resources in view of, among other things, our expansion plans, potential acquisitions and other operating cash needs. To meet short-term liquidity requirements, which are primarily the payment of direct and operating expenses, we rely primarily on cash from operations. Longer-term projects or significant acquisitions may be financed with debt or equity. We have in the past sought, and may in the future seek, to raise additional capital or take other steps to increase or manage our liquidity and capital resources. We had $189.4 million in cash, cash equivalents and marketable securities at June 30, 2015, of which approximately $106.2 million was payable in early July 2015 for withheld federal and state income taxes, employment taxes and other payroll deductions, and approximately $19.4 million were customer prepayments that were payable in July 2015. At June 30, 2015, we had adjusted working capital of $79.3 million compared to $73.1 million at December 31, 2014. We currently believe that our cash on hand, marketable securities, cash flows from operations and availability under our credit facility will be adequate to meet our liquidity requirements for the remainder of 2015. We will rely on these same sources, as well as public and private debt or equity financing, to meet our longer-term liquidity and capital needs.

We have a $125 million revolving credit facility (“Facility”) with a syndicate of financial institutions. The Facility is available for working capital and general corporate purposes, including acquisitions. As of June 30, 2015, we had an outstanding $0.6 million letter of credit issued under the Facility. Please read Note 6 to the Consolidated Financial Statements, “Revolving Credit Facility,” for additional information.

Table of Contents

Cash Flows from Operating Activities

Net cash used in operating activities in 2015 was $71.5 million. Our primary source of cash from operations is the comprehensive service fee and payroll funding we collect from our clients. Our cash and cash equivalents, and thus our reported cash flows from operating activities are significantly impacted by various external and internal factors, which are reflected in part by the changes in our balance sheet accounts. These include the following:

- Timing of client payments / payroll levels – We typically collect our comprehensive service fee, along with the client's payroll funding, from clients at least one day prior to the payment of worksite employee payrolls and associated payroll taxes. Therefore, the last business day of a reporting period has a substantial impact on our reporting of operating cash flows. For example, many worksite employees are paid on Fridays; therefore, operating cash flows decrease in the reporting periods that end on a Friday or a Monday. In the period ended June 30, 2015, the last business day of the reporting period was a Tuesday, client prepayments were $19.4 million and accrued worksite employee payroll was $228.1 million. In the period ended June 30, 2014, the last business day of the reporting period was a Monday, client prepayments were $13.7 million and accrued worksite employee payroll was $188.6 million.

- Workers' compensation plan funding – Under our workers' compensation insurance arrangements, we make monthly payments to the carriers comprised of premium costs and funds to be set aside for payment of future claims ("claim funds"). These pre-determined amounts are stipulated in our agreements with the carriers, and are based primarily on anticipated worksite employee payroll levels and workers' compensation loss rates during the policy year. Changes in payroll levels from those that were anticipated in the arrangements can result in changes in the amount of cash payments, which will impact our reporting of operating cash flows. Our claim funds paid, based upon anticipated worksite employee payroll levels and workers' compensation loss rates, were $26.7 million in the first six months of 2015 and $28.0 million in the first six months of 2014. However, our estimate of workers' compensation loss costs was $31.5 million in the 2015 period and $24.1 million in the 2014 period, respectively. During the first six months of 2015, we received $5.3 million for the return of excess claim funds related to the workers' compensation program. This resulted in an increase to working capital.

- Medical plan funding – Our health care contract with United establishes participant cash funding rates 90 days in advance of the beginning of a reporting quarter. Therefore, changes in the participation level of the United plan have a direct impact on our operating cash flows. In addition, changes to the funding rates, which are solely determined by United based primarily upon recent claim history and anticipated cost trends, also have a significant impact on our operating cash flows. At June 30, 2015, premiums owed and cash funded to United have exceeded Plan Costs, resulting in a $15.0 million surplus, $6.0 million of which is reflected as a current asset, and $9.0 million of which is reflected as a long-term asset on our Consolidated Balance Sheets. The premiums owed to United at June 30, 2015, were $2.6 million, which is included in accrued health insurance costs, a current liability, on our Consolidated Balance Sheets. Funding rates, as determined by United, resulted in a lower additional quarterly premium of $0.1 million at June 30, 2015 as compared to $14.6 million in additional quarterly premium at June 30, 2014.

- Operating results – Our net income has a significant impact on our operating cash flows. Our net income increased 84.2% to $21.1 million in the six months ended June 30, 2015, compared to $11.5 million in the six months ended June 30, 2014, due to higher gross profit. Please read "Results of Operations – Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014."

Cash Flows from Investing Activities

Net cash flows provided by investing activities were $0.5 million for the six months ended June 30, 2015, primarily due to property and equipment purchases of $5.9 million offset by $6.3 million of marketable securities maturities and dispositions, net of purchases.

Cash Flows from Financing Activities

Net cash flows used in financing activities were $37.7 million for the six months ended June 30, 2015, including $31.4 million in stock repurchases and $10.4 million in dividends paid.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are primarily exposed to market risks from fluctuations in interest rates and the effects of those fluctuations on the market values of our cash equivalent short-term investments and our available-for-sale marketable securities. In addition, borrowings under our Facility bear interest at a variable market rate. As of June 30, 2015, we had an outstanding $0.6 million letter of credit issued under the Facility. Please read Note 6 to the Consolidated Financial Statements, "Revolving Credit Facility," for additional information. The cash equivalent short-term investments consist primarily of overnight investments, which are not significantly exposed to interest rate risk, except to the extent that changes in interest rates will ultimately affect the amount of interest income earned on these investments. The available-for-sale marketable securities are subject to interest rate risk because these securities generally include a fixed interest rate. As a result, the market values of these securities are affected by changes in prevailing interest rates.

We attempt to limit our exposure to interest rate risk primarily through diversification and low investment turnover. Our investment policy is designed to maximize after-tax interest income while preserving our principal investment. As a result, our marketable securities consist of tax-exempt short and intermediate-term debt securities, which are primarily pre-refunded municipal bonds that are secured by escrow funds containing U.S. Government securities.

ITEM 4. CONTROLS AND PROCEDURES.

In accordance with the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2015.

There has been no change in our internal controls over financial reporting that occurred during the three months ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II

ITEM 1. LEGAL PROCEEDINGS.

Please read Note 10 to the Consolidated Financial Statements, “Commitments and Contingencies,” which is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

Forward-Looking Statements

The statements contained herein that are not historical facts are forward-looking statements within the meaning of the federal securities laws (Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). You can identify such forward-looking statements by the words “expects,” “intends,” “plans,” “projects,” “believes,” “estimates,” “likely,” “possibly,” “probably,” “goal,” “opportunity,” “objective,” “target,” “assume,” “outlook,” “guidance,” “p “indicator” and similar expressions. Forward-looking statements involve a number of risks and uncertainties. In the normal course of business, Insperity, Inc., in an effort to help keep our stockholders and the public informed about our operations, may from time to time issue such forward-looking statements, either orally or in writing. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, or projections involving anticipated revenues, earnings, unit growth, profit per worksite employee, pricing, operating expenses or other aspects of operating results. We base the forward-looking statements on our expectations, estimates and projections at the time such statements are made. These statements are not guarantees of future performance and involve risks and uncertainties that we cannot predict. In addition, we have based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Therefore, the actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: (i) adverse economic conditions; (ii) regulatory and tax developments and possible adverse application of various federal, state and local regulations; (iii) the ability to secure competitive replacement contracts for health insurance and workers’ compensation insurance at expiration of current contracts; (iv) increases in health insurance costs and workers’ compensation rates and underlying claims trends, health care reform, financial solvency of workers’ compensation carriers, other insurers or financial institutions, state unemployment tax rates, liabilities for employee and client actions or payroll-related claims; (v) failure to manage growth of our operations and the effectiveness of our sales and marketing efforts; (vi) the impact of the competitive environment in the PEO industry on our growth and/or profitability; (vii) our liability for worksite employee payroll, payroll taxes and benefits costs; (viii) our liability for disclosure of sensitive or private information; (ix) our ability to integrate or realize expected returns on our acquisitions; (x) failure of our information technology systems; (xi) an adverse final judgment or settlement of claims against Insperity; and (xii) disruptions to our business resulting from the actions of certain stockholders. These factors are discussed in further detail in our 2014 Annual Report on Form 10-K under “Factors That May Affect Future Results and the Market Price of Common Stock” on page 18, and elsewhere in this report. Any of these factors, or a combination of such factors, could materially affect the results of our operations and whether forward-looking statements we make ultimately prove to be accurate.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table provides information about purchases by Insperity during the three months ended June 30, 2015, of equity securities that are registered by Insperity pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased(1)(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Announced Program(1)	Maximum Number of Shares Available for Purchase under Announced Program(1)
04/01/2015 – 04/30/2015	586	$52.20	—	768,765
05/01/2015 – 05/31/2015	90,377	52.79	90,048	1,678,717
06/01/2015 – 06/30/2015	441,279	52.00	440,885	1,237,832
Total	532,242	$52.14	530,933	

(1) Our Board has approved a program to repurchase shares of our outstanding common stock, including an additional one million shares authorized for repurchase in May 2015. During the three months ended June 30, 2015, 530,933 shares were repurchased under the program and 1,309 shares were withheld to satisfy tax withholding obligations for the vesting of restricted stock awards. As of June 30, 2015, we were authorized to repurchase an additional 1,237,832 shares under the program. Unless terminated earlier by resolution of the Board, the repurchase program will expire when we have repurchased all shares authorized for repurchase under the repurchase program.

(2) These shares include shares of restricted stock that were withheld to satisfy tax-withholding obligations arising in conjunction with the vesting of restricted stock. The required withholding is calculated using the closing sales price reported by the New York Stock Exchange on the date prior to the applicable vesting date. These shares are not subject to the repurchase program described above.

Table of Contents

ITEM 6. EXHIBITS.

(a) List of Exhibits

31.1	*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	*	XBRL Instance Document.(1)
101.SCH	*	XBRL Taxonomy Extension Schema Document.
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	*	XBRL Extension Definition Linkbase Document.
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document.

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* Filed with this report.

** Furnished with this report.

(1) Attached as exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations for the three and six month periods ended June 30, 2015 and 2014; (ii) the Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2015 and 2014; (iii) the Consolidated Balance Sheets at June 30, 2015 and December 31, 2014; (iv) the Consolidated Statement of Stockholders' Equity for the six month period ended June 30, 2015; (v) the Consolidated Statements of Cash Flows for the six month periods ended June 30, 2015 and 2014; and (vi) Notes to the Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

Insperity, Inc.

Date: August 3, 2015

By: /s/ Douglas S. Sharp
Douglas S. Sharp
Senior Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial Officer)