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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013.

or

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

For the transition period from ____________________ to ____________________

Commission File 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

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange
(Title of class)	(Name of Exchange on Which Registered)

Securities Registered Pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 definition 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 ☐ (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 ☒

As of February 3, 2014, 25,504,983 shares of the registrant's common stock, par value $0.01 per share, were outstanding. As of the last business day of the registrant's most recently completed second quarter, the aggregate market value of the common stock held by non-affiliates (based upon the June 30, 2013, closing price of the common stock as reported by the New York Stock Exchange) was approximately $688 million.

DOCUMENTS INCORPORATED BY REFERENCE

Part III information is incorporated by reference from the proxy statement for the annual meeting of stockholders to be held May 13, 2014, which the registrant intends to file within 120 days of the end of the fiscal year.

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PART I

Unless otherwise indicated, "Insperity," "we," "our" and "us" are used in this annual report to refer to Insperity, Inc. and its consolidated subsidiaries. This annual report contains forward-looking statements within the meaning of 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," "predicts," "appears," "indicator" and similar expressions. In the normal course of business, in an effort to help keep our stockholders and the public informed about our operations we 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 or other operating results. We base the forward-looking statements on our current expectations, estimates and projections. We caution you that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions 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 in this annual report, or elsewhere, could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this annual report, including, without limitation, factors discussed in Item 1, "Business," Item 1A, "Risk Factors," and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 1. BUSINESS.

General

Insperity, Inc., formerly named Administaff, Inc. ("Insperity") provides an array of human resources ("HR") and business solutions designed to help improve business performance. Our name change, which was effective March 3, 2011, reflects our evolution over 27 years from a professional employer organization ("PEO"), an industry we pioneered, to our current position as a comprehensive business performance solutions provider. We were organized as a corporation in 1986 and have provided PEO services since inception.

Our long-term strategy is to provide the best small and medium-sized businesses in the United States with our unique human resources service offering and to leverage our buying power and expertise to provide additional valuable services to clients. Our most comprehensive HR business offering is provided through our PEO services, now known as our Workforce Optimization® solution, which encompasses a broad range of human resources functions, including payroll and employment administration, employee benefits, workers' compensation, government compliance, performance management and training and development services.

In addition to our Workforce Optimization solution, we offer a number of other business performance solutions, including Human Capital Management, Payroll Services, Time and Attendance, Performance Management, Organizational Planning, Recruiting Services, Employment Screening, Financial Services, Expense Management, Retirement Services and Insurance Services, (collectively "Adjacent Businesses"), many of which are offered via desktop applications and software as a service ("SaaS") delivery models. These other products or services are offered separately, as a bundle, or along with Workforce Optimization.

Our Workforce Optimization solution is designed to improve the productivity and profitability of small and medium-sized businesses. It relieves business owners and key executives of many employer-related administrative and regulatory burdens, which enables them to focus on the core competencies of their businesses. It also promotes employee performance through human resources management techniques designed to improve employee satisfaction. We provide our Workforce Optimization solution by entering into a Client Service Agreement ("CSA"), which establishes a three-party relationship whereby we and our client act as co-employers of the employees who work at the client's location ("worksite employees"). Under the CSA, we assume responsibility for personnel administration and compliance with most employment-related governmental regulations, while the client retains the employees' services in its business and remains the employer for various other purposes. We charge a comprehensive service fee ("comprehensive service fee" or "gross billing"), which is invoiced concurrently with the processing of payroll for the worksite employees of the client. The comprehensive service fee consists of the payroll of our worksite employees and a markup computed as a percentage of the payroll cost of the worksite employees.

We accomplish the objectives of our Workforce Optimization solution through a "high-touch/high-tech" approach to service delivery. In advisory areas, such as recruiting, employee performance management and employee training, we employ a high-touch approach designed to ensure that our clients receive the personal attention and expertise needed to create a customized human resources solution. For transactional processing, we employ a high-tech approach that provides secure, convenient information exchange among Insperity, our clients and our worksite employees, creating efficiencies for all parties. The primary component of the high-tech portion of our strategy is the Employee Service Center℠ ("ESC"). The ESC is our web-based interactive Workforce Optimization solution delivery platform, which is designed to provide automated, personalized Workforce Optimization solutions to our clients and worksite employees.

As of December 31, 2013, we had 57 offices, including 48 Workforce Optimization sales offices in 25 markets. In addition, we had four regional service centers along with human resources and client service personnel located in a majority of our 25 sales markets, which serviced an average of 130,732 worksite employees per month in the fourth quarter of 2013. Our service centers coordinate Workforce Optimization solutions for clients on a regional basis and localized face-to-face human resources services.

Our principal executive offices are located at 19001 Crescent Springs Drive, Kingwood, Texas 77339. Our telephone number at that address is (281) 358-8986 and our website address is insperity.com. Our stock is traded on the New York Stock Exchange under the symbol "NSP." Periodic Securities and Exchange Commission ("SEC") filings, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through our website free of charge as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

PEO Industry

The PEO industry began to evolve in the early 1980s largely in response to the burdens placed on small and medium-sized employers by an increasingly complex legal and regulatory environment. While various service providers were available to assist these businesses with specific tasks, PEOs emerged as providers of a more comprehensive range of services relating to the employer/employee relationship. In a PEO arrangement, the PEO assumes certain aspects of the employer/employee relationship as defined in the contract between the PEO and its client. Because PEOs provide employer-related services to a large number of employees, they can achieve economies of scale that allow them to perform employment-related functions more efficiently, provide a greater variety of employee benefits, and devote more attention to human resources management than a client can individually.

We believe the key factors driving demand for PEO services include:

- the focus on growth and productivity of the small and medium-sized business community in the United States, utilizing outsourcing to concentrate on core competencies
- the need to provide competitive health care and related benefits to attract and retain employees
- the increasing costs associated with health and workers' compensation insurance coverage, workplace safety programs, employee-related complaints and litigation
- complex regulation of employment issues and the related costs of compliance, including the allocation of time and effort to such functions by owners and key executives

A significant factor in the development of the PEO industry has been increasing recognition and acceptance of PEOs and the co-employer relationship by federal and state governmental authorities. Insperity and other industry leaders, in concert with the National Association of Professional Employer Organizations ("NAPEO"), have worked with the relevant governmental entities for the establishment of a regulatory framework that protects clients and employees, discourages unscrupulous and financially unsound companies, and promotes further development of the industry. Currently, 41 states have enacted legislation either recognizing PEOs or requiring licensing, registration, or certification, and several others are considering such regulation. Such laws vary from state to state but generally provide for monitoring the fiscal responsibility of PEOs. State regulation assists in screening insufficiently capitalized PEO operations and helps to resolve interpretive issues concerning employee status for specific purposes under applicable state law. We have actively supported such regulatory efforts and are currently recognized, licensed, registered, certified or pursuing registration in all 41 of these states. The cost of compliance with these regulations is not material to our financial position or results of operations.

Service Offerings

Workforce Optimization® Solution

We serve small and medium-sized businesses by providing our Workforce Optimization solution, which encompasses a broad range of services, including the following:

- benefits and payroll administration
- health and workers' compensation insurance programs
- personnel records management
- employer liability management
- employee recruiting and selection
- employee performance management
- training and development services

Our Workforce Optimization solution is designed to attract and retain high-quality employees, while relieving client owners and key executives of many employer-related administrative and regulatory burdens. Among the employment-related laws and regulations that may affect a client are the following:

- Internal Revenue Code (the "Code")
- Federal Income Contribution Act (FICA)
- Federal Unemployment Tax Act (FUTA)
- Fair Labor Standards Act (FLSA)*
- Employee Retirement Income Security Act, as amended (ERISA)
- Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)*
- Immigration Reform and Control Act (IRCA)
- Title VII (Civil Rights Act of 1964)*
- Health Insurance Portability and Accountability Act (HIPAA)
- Age Discrimination in Employment Act (ADEA)*
- Americans with Disabilities Act (ADA)*
- The Family and Medical Leave Act (FMLA)*
- Genetic Information Nondiscrimination Act of 2008
- Drug-Free Workplace Act*
- Occupational Safety and Health Act (OSHA)*
- Worker Adjustment and Retraining Notification Act (WARN)*
- Uniformed Services Employment and Reemployment Rights Act (USERRA)
- State unemployment and employment security laws
- State workers' compensation laws
- Health Care and Education Reconciliation Act of 2010 (the "Reconciliation Act")
- Patient Protection and Affordable Care Act (PPACA)

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* And similar state laws

While these laws and regulations are complex, and in some instances overlapping, we assist our clients in achieving compliance with these laws and regulations by providing services in four primary categories:

- administrative functions
- benefit plans administration
- personnel management
- employer liability management

All of the following services are included in our Workforce Optimization solution and are available to all clients:

Administrative Functions. Administrative functions encompass a wide variety of processing and recordkeeping tasks, mostly related to payroll administration and government compliance. Specific examples include:

- payroll processing
- payroll tax deposits
- quarterly payroll tax reporting
- employee file maintenance
- unemployment claims processing
- workers' compensation claims reporting

failure, sale, merger, or disposition; (iii) our termination of the CSA resulting from the client's non-compliance or inability to make timely payments; and (iv) competition from other PEOs or business services firms.

Marketing and Sales

As of December 31, 2013, we had 48 Workforce Optimization sales offices located in 25 markets. Our sales offices typically consist of six to eight Business Performance Advisors ("BPAs"), a district sales manager and an office administrator. To take advantage of economic efficiencies, multiple sales offices may share a physical location. Insperity's markets and their respective year of entry are as follows:

Market	Sales Offices	Initial Entry Date
Houston	5	1986
San Antonio	1	1989
Austin	1	1989
Orlando	1	1989
Dallas/Fort Worth	4	1993
Atlanta	2	1994
Phoenix	1	1995
Chicago	2	1995
Washington D.C.	2	1995
Denver	2	1996
Los Angeles	5	1997
Charlotte	1	1997
St. Louis	1	1998
San Francisco	3	1998
New York	3	1999
Maryland	2	2000
New Jersey	2	2000
San Diego	1	2001
Boston	2	2001
Minneapolis	2	2002
Raleigh	1	2006
Kansas City	1	2007
Columbus	1	2010
Nashville	1	2011
Philadelphia	1	2012

Our existing and prospective markets are identified using a systematic market evaluation and selection process. We continue to evaluate a broad range of factors in the selection process, using a market selection model that weights various criteria we believe are reliable predictors of successful penetration based on our experience. Among the factors we consider are:

- market size, in terms of small and medium-sized businesses engaged in selected industries that meet our risk profile;
- market receptivity to PEO services, including the regulatory environment and relevant history with other PEO providers;
- existing relationships within a given market, such as vendor or client relationships;
- expansion cost issues, such as advertising and overhead costs;
- direct cost issues that bear on our effectiveness in controlling and managing the cost of our services, such as; workers' compensation and health insurance costs, unemployment risks and various legal and other factors;
- a comparison of the services we offer to alternatives available to small and medium-sized businesses in the relevant market, such as the cost to the target clients of procuring services directly or through other PEOs; and

- long-term strategy issues, such as the general perception of markets and our estimate of the long-term revenue growth potential of the market.

Each of our expansion markets, beginning with Dallas in 1993, was selected in this manner.

In 2011, we launched our rebranding initiative whereby Administaff became Insperity; a new brand backed by an innovative strategy for meeting the ongoing performance needs of America's best companies. The name Insperity is drawn from the linked entrepreneurial goals of inspiration and prosperity, and underscores our ongoing vision of helping businesses succeed.

We develop a mix of national and local advertising media and a placement strategy tailored to each individual market. After selecting a market and developing our marketing mix, but prior to entering the market, we engage in an organized media and public relations campaign to prepare the market for our entry and to begin the process of generating sales leads. We market our services through various business promotions and a broad range of media outlets, including television, radio, newspapers, periodicals, direct mail and the Internet. We employ public relations firms for most of our markets as well as advertising consultants to coordinate and implement our marketing campaigns. We have developed an inventory of television, radio and newsprint advertisements, which are utilized in this effort.

We continuously seek to develop new marketing approaches and campaigns to capitalize on changes in the competitive landscape for our human resources services and to more successfully reach our target market. We have an agreement with the Professional Golf Association Champions Tour to be the title sponsor of the annual Insperity Invitational™ presented by UnitedHealthcare® professional golf tournament held annually in The Woodlands, Texas (a suburb of Houston). In addition, we have arrangements with Arnold Palmer and Jim Nantz, a sports commentator, to serve as our national spokespersons. Our marketing campaigns use this event and the relationships with Mr. Palmer and Mr. Nantz as a focal point of our brand marketing efforts.

Our organic growth model generates sales leads from five primary sources: direct sales efforts, advertising, referrals, marketing alliances and the Internet. These leads result in initial presentations to prospective Workforce Optimization clients, and ultimately, prospective Workforce Optimization client census reports. A prospective Workforce Optimization client's census report reflects information gathered by the BPA about the prospect's employees, including job classification, state of employment, workers' compensation claims history, group medical information (where permitted by law), salary and desired level of benefits. This information is entered into our customized bid system, which applies Insperity's proprietary pricing model to the census data, leading to the preparation of a bid. Concurrent with this process, we evaluate the prospective client's workers' compensation, health insurance, employer practices and financial stability from a risk management perspective. Upon completion of a favorable risk evaluation, the BPA presents the bid and attempts to enroll the prospect. Our selling process typically takes approximately 90 days for clients with less than 150 employees, and up to approximately 180 days for larger clients. The process can be extended during economic downturns.

We have implemented cross-selling channels between our Workforce Optimization business and our ABUs in order to execute on our ABU strategy. This strategy focuses on using our Workforce Optimization offering to increase market penetration in each of our ABU businesses and using our ABU offering as a source of leads for our Workforce Optimization solution. The cross-selling channels attempt to reduce barriers to selling our products and services and results in tailored service packages to better meet the specific needs of the business.

Competition

We provide a value-added, full-service human resources solution through our Workforce Optimization solution, which we believe is most suitable to a specific segment of the small and medium-sized business community. This full-service approach is exemplified by our commitment to provide a high level of service and technology personnel, which has produced a ratio of corporate staff to worksite employees (the "staff support ratio") that is higher than average for the PEO industry. Based on an analysis of the 2010 through 2012 annual NAPEO surveys of the PEO industry, we have successfully leveraged our full-service approach into significantly higher returns for Insperity on a per worksite employee per month basis. During the three-year period from 2010 through 2012, our staff support ratio averaged 55% higher than the PEO industry average. During the same three-year period, our gross profit per worksite employee and operating income per worksite employee exceeded industry averages by 154% and 249%, respectively.

Competition in the PEO industry revolves primarily around quality of services, scope of services, choice and quality of benefits packages, reputation and price. We believe reputation, national presence, regulatory expertise, financial resources, risk management and information technology capabilities distinguish leading PEOs from the rest of the industry. We also

ITEM 1A. RISK FACTORS.

Factors That May Affect Future Results and the Market Price of Common Stock

Adverse Economic Conditions Could Negatively Affect our Industry, Business and Results of Operations

The small and medium-sized business market is sensitive to changes in economic activity levels as well as the credit markets. As a result, the demand for the outsourced HR services we provide clients could be adversely impacted by weak economic conditions or difficulty obtaining credit. Current and prospective clients may respond to such conditions by reducing employment levels, compensation levels, employee benefit levels and outsourced HR services. In addition, during periods of weak economic levels, current clients may have difficulty meeting their financial obligations to us and may select alternative HR services at more competitive rates than we offer. Such developments could adversely impact our financial condition, results of operations and future growth rates.

We Assume Liability for Worksite Employee Payroll, Payroll Taxes and Benefits Costs and are Responsible for their Payment Regardless of the Amount Billed to or Paid by our Clients

Under the CSA, we become a co-employer of worksite employees and assume the obligations to pay the salaries, wages and related benefits costs and payroll taxes of such worksite employees. We assume such obligations as a principal, not as an agent of the client. Our obligations include responsibility for:

- payment of the salaries and wages for work performed by worksite employees, regardless of whether the client timely pays us the associated service fee
- withholding and payment of federal and state payroll taxes with respect to wages and salaries reported by Insperity
- providing benefits to worksite employees even if our costs to provide such benefits exceed the fees the client pays us

If a client does not pay us, or if the costs of benefits we provide to worksite employees exceed the fees a client pays us, our ultimate liability for worksite employee payroll and benefits costs could have a material adverse effect on our financial condition or results of operations.

Increases in Health Insurance Costs or Inability to Secure Replacement Contracts on Competitive Terms Could have a Material Adverse Effect on our Financial Condition or Results of Operations

Maintaining health insurance plans that cover worksite employees is a significant part of our business. Our primary health insurance contract expires on December 31, 2015, subject to cancellation by either party upon 180 days notice. In the event we are unable to secure replacement contracts on competitive terms, significant disruption to our business could occur.

Health insurance costs are in part determined by our claims experience and comprise a significant portion of our direct costs. If we experience an increase in the number or severity of claims, our health insurance costs could increase. Claim activity levels are impacted by a number of factors, including, but not limited to, macro-economic changes, proposed and enacted regulatory changes and medical outbreaks. Contractual arrangements with our clients limit our ability to incorporate such increases into service fees, which could result in a delay before such increases could be reflected in service fees. As a result, such increases could have a material adverse effect on our financial condition or results of operations. For additional information related to our health insurance costs, please read Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Benefits Costs."

Health Care Reform Could Affect Our Health Insurance Plan and Could Lead to a Significant Disruption in our Business

The PPACA was signed into law on March 23, 2010. The PPACA was subsequently amended on March 30, 2010 by the Reconciliation Act. The PPACA and Reconciliation Act (collectively the "Act") entail sweeping health care reforms with staggered effective dates from 2010 through 2018, and many provisions in the Act require the issuance of additional guidance from the U.S. Department of Labor, the IRS, the U.S. Department of Health & Human Services ("HHS"), and the states.

Beginning in 2014, a number of key provisions of the Act take effect including, the establishment of state insurance exchanges ("Exchanges"), insurance market reforms and the imposition of excise taxes on the health insurance industry and reinsurance taxes on insurers and third party administrators. Additionally, the pay or play penalties on large employers take effect in 2015. Collectively, these items have the potential to significantly change the insurance marketplace for small and medium sized businesses and how employers provide insurance to employees. In addition, as a co-employer in the PEO relationship, we assume or share many of the employer-related responsibilities and assist our clients in complying with many employment-related governmental regulations. Generally, the Act and subsequently issued guidance by IRS and HHS have not addressed or in some instances are unclear as to their application in the PEO relationship or whether such provisions should be applied at the PEO or client level.

We are currently unable to determine the impact of the Act on our benefit plans, business model and future results of operations. In future periods, the changes may result in increased costs to us and could affect our ability to attract and retain clients. Additionally, contractual arrangements and competitive market conditions may limit or delay our ability to increase service fees to offset any associated potential increased costs. For additional information related to PPACA, please read Item 1. "Business – Industry Regulations – Patient Protection and Affordable Care Act."

Increases in Workers' Compensation Costs or Inability to Secure Replacement Coverage on Competitive Terms Could Lead to a Significant Disruption to our Business

Our workers' compensation coverage has been provided through an arrangement with ACE since 2007. Under our current arrangement with ACE, we bear the economic burden for the first $1 million layer of claims per occurrence and the economic burden for claims over $1 million, up to a maximum aggregate amount of $5 million per policy year for claims that exceed the first $1 million. ACE bears the burden for all claims in excess of these levels. The ACE Program is a fully insured policy whereby ACE has the responsibility to pay all claims incurred under the policy regardless of whether we satisfy our responsibilities. For additional discussion of our policy with ACE, please read Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Workers' Compensation Costs."

Workers' compensation costs are a significant portion of our direct costs. If we were to experience an unexpected large increase in the number or severity of claims, our workers' compensation costs could increase, which could have a material adverse effect on our results of operations or financial condition.

The current workers' compensation coverage with ACE expires on September 30, 2014. In the event we are unable to secure replacement coverage on competitive terms, significant disruption to our business could occur.

Our Ability to Adjust and Collect Service Fees for Increases in Unemployment Tax Rates May be Limited

We record our SUI tax expense based on taxable wages and tax rates assigned by each state. State unemployment tax rates vary by state and are determined, in part, based on prior years' compensation experience in each state. Prior to the receipt of final tax rate notices, we estimate our expected SUI tax rate in those states for which tax rate notices have not yet been received for purposes of pricing. In a period of adverse economic conditions state unemployment funds may experience a significant increase in the number of unemployment claims. Accordingly, state unemployment tax rates would likely increase substantially. Some states have the ability under law to increase unemployment tax rates retroactively to cover deficiencies in the unemployment fund. In addition, federal unemployment tax rates may be retroactively increased in certain states in the event the state fails to timely repay federal unemployment loans. 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, such increases could have a material adverse effect on our financial condition or results of operations. For additional information related to state unemployment taxes, please read Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies."

Our Contracts May be Canceled on Short Notice. Our Inability to Renew Client Contracts or Attract New Clients Could Materially and Adversely Affect our Financial Conditions and Results of Operations

Our standard CSA can generally be canceled by us or the client with 30 days notice. Accordingly, the short-term nature of the CSA makes us vulnerable to potential cancellations by existing clients, which could materially and adversely affect our financial condition and results of operations. In the event we have a high proportion of terminating clients from our mid-market customer base (which are generally under a two-year CSA), the financial impact of such an event could be significant. In addition, our results of operations are dependent in part upon our ability to retain or replace our clients upon the termination or cancellation of the CSA. Our client attrition rate was approximately 19% in 2013. There can be no assurance that the number of contract cancellations will continue at these levels and such cancellations may increase in the future due to various factors, including but not limited to, economic conditions in the markets we operate. Clients electing to purchase our services or electing an alternative solution often do so at the beginning of the calendar year. As a result, we typically experience our largest concentration of new client additions and attrition in the first quarter of each year.

Established Competitors and New Market Entrants May Have a Competitive Advantage over Us

The human resources services industry, including the PEO industry, is highly fragmented. Many PEOs have limited operations and fewer than 1,000 worksite employees, but there are several industry participants that are comparable to our size or larger. We also encounter competition from "fee for service" companies such as payroll processing firms, insurance companies, human resources consultants and human resources technology solutions. Our competitors include the PEO divisions of large business services companies, such as Automatic Data Processing, Inc. and Paychex, Inc., and other national PEOs such as TriNet. Other PEOs may offer their PEO services at more competitive prices than we may be able to offer. Moreover, we expect that as the PEO industry grows and its regulatory framework becomes better established, well-organized competition with greater resources than we have may enter the PEO market, possibly including large "fee for service" companies currently providing a more limited range of services.

We May be Subject to Liabilities for Client and Employee Actions

A number of legal issues remain unresolved with respect to the co-employment arrangement between a PEO and its worksite employees, including questions concerning the ultimate liability for violations of employment and discrimination laws. Our CSA establishes the contractual division of responsibilities between Insperity and our clients for various personnel management matters, including compliance with and liability under various governmental regulations.

Because we act as a co-employer, we may be subject to liability for violations of various employment and discrimination laws despite these contractual provisions, even if we do not participate in such violations. Although the CSA provides that the client is to indemnify us for any liability attributable to the client's conduct, we may not be able to collect on such a contractual indemnification claim and thus may be responsible for satisfying such liabilities to the extent that such liabilities are not covered or insured against under our insurance policies. In addition, worksite employees may be deemed to be our agents, which may subject us to liability for the actions of such worksite employees.

Changes in Federal, State and Local Regulation or our Inability to Obtain Licenses under New Regulatory Frameworks Could Have a Material Adverse Effect on our Results of Operations or Financial Condition

As a major employer, our operations are affected by numerous federal, state and local laws and regulations relating to labor, tax, benefit, insurance and employment matters. By entering into a co-employer relationship with employees assigned to work at client locations, we assume certain obligations and responsibilities of an employer under these laws. However, many of these laws (such as the Act, ERISA and federal and state employment tax laws) do not specifically address the obligations and responsibilities of non-traditional employers such as PEOs, and the definition of "employer" under these laws is not uniform. In addition, many of the states in which we operate have not addressed the PEO relationship for purposes of compliance with applicable state laws governing the employer/employee relationship. Any adverse application of new or existing federal or state laws to the PEO relationship with our worksite employees and client companies could have a material adverse effect on our results of operations or financial condition.

While many states do not explicitly regulate PEOs, 41 states have passed laws that have recognition, licensing, certification or registration requirements for PEOs and several other states are considering such regulation. Such laws vary from state to state, but generally provide for monitoring the fiscal responsibility of PEOs, and in some cases codify and clarify the co-employment relationship for unemployment, workers' compensation and other purposes under state law. While we generally support licensing regulation because it serves to validate the PEO relationship, we may not be able to satisfy licensing requirements or other applicable regulations for all states. In addition, there can be no assurance that we will be able to renew our licenses in all states.

Geographic Market Concentration Makes our Results of Operations Vulnerable to Economic Factors

Our New York, California, and Texas (including 13% in Houston) markets accounted for approximately 9%, 18% and 26%, respectively, of our worksite employees for the year ended December 31, 2013. Accordingly, while we have a goal of expanding in our current markets and into new markets, for the foreseeable future, a significant portion of our revenues may be subject to economic factors specific to New York, Texas and California.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We believe our current real estate and facilities are adequate for the purposes for which they are intended and provide for further expansion to accommodate our long-term growth and expansion goals. We believe that short-term leased facilities are readily available if needed to accommodate near-term needs if they arise. We will continue to evaluate the need for additional facilities based on the extent of our product and service offerings, the rate of customer growth, the geographic distribution of our customer base and our long-term service delivery requirements.

Corporate Facilities

Our corporate headquarters is located in Kingwood, Texas, in a 327,000 square foot office campus-style facility. This 30-acre company-owned office campus includes approximately nine acres of undeveloped land for future expansion. Development and support operations are located in the Kingwood facility, along with our record retention center and a technology hosting facility.

Service Centers

We currently have four regional service centers located in Atlanta, Dallas, Houston and Los Angeles.

The Atlanta service center, which currently services approximately 33% of our worksite employee base, is located in a 40,000 square foot facility under lease until 2014. We are in the process of moving to a 40,500 square foot facility in Atlanta that is under lease until 2022.

The Dallas service center, which currently services approximately 19% of our worksite employee base, is located in a 48,600 square foot facility under lease until 2016. In addition to the service center, the facility also contains sales operations.

The Houston service center, which currently services approximately 24% of our worksite employee base, is located in a 60,600 square foot facility under lease until 2016. In addition to the service center operations, the facility also contains corporate support operations.

The Los Angeles service center, which currently services approximately 24% of our worksite employee base, is located in a 38,000 square foot facility under lease until 2019.

Sales Offices

As of December 31, 2013, we had Workforce Optimization sales and service personnel in 39 facilities located in 25 sales markets throughout the United States. All of the facilities are leased and some are shared by multiple sales offices and/or client service personnel. As of December 31, 2013, we had 48 Workforce Optimization sales offices in these 25 markets. To take advantage of economic efficiencies, multiple sales offices may share a physical location. Each sales office is typically staffed by six to eight BPAs, a district sales manager and an office administrator. In addition, we have placed certain client service personnel in a majority of our sales markets to provide high-quality, localized service to our clients in those major markets. We expect to continue placing various client service personnel in sales markets as a critical mass of clients is attained in each market.

ITEM 3. LEGAL PROCEEDINGS.

We are not a party to any material pending legal proceedings other than ordinary routine litigation incidental to our business that we believe would not have a material adverse effect on our financial condition or results of operations, except as discussed in Note 14 to the Consolidated Financial Statements, “Commitments and Contingencies,” which is incorporated herein by reference.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Price Range of Common Stock

Our common stock is traded on the New York Stock Exchange under the symbol "NSP." As of February 3, 2014, there were 333 holders of record of our common stock. This number does not include stockholders for whom shares were held in "nominee" or "street name." The following table sets forth the high and low sales prices for the common stock as reported on the New York Stock Exchange transactional tape.

2013	High	Low	Dividends per Share
First Quarter	$ 34.20	$ 27.04	$ 0.17
Second Quarter	31.80	26.44	0.17
Third Quarter	37.80	30.36	0.17
Fourth Quarter	39.69	32.67	0.17
2012			
First Quarter	$ 31.79	$ 25.62	$ 0.15
Second Quarter	31.14	24.10	0.17
Third Quarter	28.48	23.94	0.17
Fourth Quarter	33.24	24.95	1.17 [1]

(1) Includes a $1.00 per share special dividend.

Dividend Policy

During 2013 and 2012, we paid dividends of $17.4 million and $42.7 million, respectively, including a special cash dividend of $25.7 million paid in the fourth quarter of 2012. The payment of dividends is made at the discretion of our Board of Directors and depends upon our operating results, financial condition, capital requirements, general business conditions and such other factors as our Board of Directors deems relevant.

Issuer Purchases of Equity Securities

The following table provides information about our purchases of Insperity common stock during the three months ended December 31, 2013:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program[1]	Maximum Number of Shares that may yet be Purchased under the Program[1]
10/01/2013 – 10/31/2013	—	$ —	—	1,352,569
11/01/2013 – 11/30/2013	—	—	—	1,352,569
12/01/2013 – 12/31/2013	3,000	32.83	3,000	1,349,569
Total	3,000	$ 32.83	3,000	1,349,569

(1) Our Board of Directors has authorized a program to repurchase shares of our outstanding common stock. During the three months ended December 31, 2013, 3,000 shares were repurchased under the program and no shares were withheld to satisfy tax withholding obligations for the vesting of restricted stock awards. As of December 31, 2013, we are authorized to repurchase an additional 1,349,569 shares under the program. Unless terminated early by resolution of the Board of Directors, the repurchase program will expire when we have repurchased all shares authorized for repurchase under the repurchase program.

ITEM 6. SELECTED FINANCIAL DATA.

The selected consolidated financial data set forth below should be read in conjunction with the Consolidated Financial Statements and accompanying Notes and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share and statistical data)				
Income Statement Data:					
Revenues[1]	$2,256,112	$2,158,824	$1,976,219	$1,719,752	$1,653,096
Gross profit	393,251	382,221	351,775	298,536	287,967
Operating income	56,223 [2]	67,494 [3]	57,314	37,060	27,033
Net income	32,032 [4]	40,402	30,470 [5]	22,440	16,574
Diluted net income per share	$ 1.25	$ 1.56	$ 1.16	$ 0.86	$ 0.65
Balance Sheet Data:					
Working capital	$ 128,630	$ 115,706	$ 126,562	$ 144,479	$ 127,627
Total assets	766,560	750,200	712,259	659,845	576,470
Total stockholders' equity	253,272	240,905	245,207	240,395	223,160
Cash dividends per share	$ 0.68	$ 1.66 [6]	$ 0.60	$ 0.52	$ 0.52
Statistical Data:					
Average number of worksite employees paid per month during period	127,517	125,650	116,839	107,014	108,736
Revenues per worksite employee per month[7]	$ 1,474	$ 1,432	$ 1,410	$ 1,339	$ 1,267
Gross profit per worksite employee per month	$ 257	$ 253	$ 251	$ 232	$ 221
Operating income per worksite employee per month	$ 37	$ 45	$ 41	$ 29	$ 21

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(1) Gross billings of $13.462 billion, $12.992 billion, $11.700 billion, $10.169 billion and $9.856 billion, less worksite employee payroll cost of $11.206 billion, $10.833 billion, $9.724 billion, $8.449 billion and $8.203 billion, respectively.

(2) Includes a non-cash impairment charge in the fourth quarter of 2013 of $3.3 million. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

(3) Includes a non-cash impairment charge in the fourth quarter of 2012 of $4.2 million. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

(4) Includes the impact of a $2.7 million non-cash impairment charge in the second quarter of 2013, please read Note 6 to the Consolidated Financial Statements, "Other Assets," for additional information. We also recorded a $2.0 million tax benefit in the fourth quarter of 2013 related to tax years 2009 through 2012, please read Note 9 to the Consolidated Financial Statements, "Income Taxes," for additional information.

(5) Includes the impact of a $4.4 million pre-tax loss related to the exchange of an aircraft, and a $3.1 million pre-tax loss related to a settlement with the State of California. Please read Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies," for additional information on the settlement with the State of California.

(6) Includes a $1.00 per share special dividend paid in the fourth quarter of 2012.

(7) Gross billings of $8,797, $8,617, $8,345, $7,919 and $7,553 per worksite employee per month, less payroll cost of $7,323, $7,185, $6,935, $6,580 and $6,286 per worksite employee per month, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this annual report. Historical results are not necessarily indicative of trends in operating results for any future period.

The statements contained in this annual report that are not historical facts are forward-looking statements that involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements in this annual report could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in Item 1A. Risk Factors and the uncertainties set forth from time to time in our other public reports and filings and public statements.

Overview

Our long-term strategy is to provide the best small and medium-sized businesses in the United States with our unique human resources service offering, and to leverage our buying power and expertise to provide additional valuable services to clients. Our most comprehensive HR business offering is provided through our PEO services, now known as our Workforce Optimization™ solution, which encompasses a broad range of human resources functions, including payroll and employment administration, employee benefits, workers' compensation, government compliance, performance management and training and development services. Our overall operating results can be measured in terms of revenues, payroll costs, gross profit or operating income per worksite employee per month. We often use the average number of worksite employees paid during a period as our unit of measurement in analyzing and discussing our results of operations.

In addition to Workforce Optimization, we offer Human Capital Management, Payroll Services, Time and Attendance, Performance Management, Organizational Planning, Recruiting Services, Employment Screening, Financial Services, Expense Management, Retirement Services and Insurance Services, many of which are offered via desktop applications and SaaS delivery models. These other products or services are offered separately, as a bundle, or along with Workforce Optimization.

We ended 2013 averaging 130,732 paid worksite employees in the fourth quarter, which represents a 1.1% increase over the fourth quarter of 2012. Approximately 19% of our paid worksite employees were in our mid-market sector for the year ended December 31, 2013, which is defined as companies with 150 to 2,000 worksite employees. We expect the average number of paid worksite employees per month to be in the range of 127,000 to 128,000 in the first quarter of 2014.

Our 2013 average gross profit per worksite employee per month was $257, a $4 increase over 2012. Included in gross profit in 2013 is a $14 per worksite employee per month contribution from our Adjacent Businesses compared to $11 per worksite employee per month in the 2012 period.

Operating expenses increased 7.1% in 2013 to $337.0 million. On a per worksite employee per month basis, operating expenses increased from $208 in 2012 to $220 in 2013.

Other expense increased $3.3 million, primarily due to a $2.7 million non-cash impairment charge related to our investment in The Receivables Exchange.

Our net income in 2013 was $32.0 million, an $8.4 million decrease compared to 2012.

We ended 2013 with working capital of $128.6 million. During 2013, we paid $17.4 million in dividends and repurchased shares at a cost of $17.2 million.

Revenues

We account for our revenues in accordance with Accounting Standards Codification ("ASC") 605-45, *Revenue Recognition*. Our Workforce Optimization gross billings to clients include the payroll cost of each worksite employee at the client location and a markup computed as a percentage of each worksite employee's payroll cost. We invoice the gross billings concurrently with each periodic payroll of our worksite employees. Revenues, which exclude the payroll cost component of gross billings, and therefore, consist solely of the markup, are recognized ratably over the payroll period as worksite employees perform their service at the client worksite. This markup includes pricing components associated with our estimates of payroll taxes, benefits and workers' compensation costs, plus a separate component related to our HR services. We include revenues that have been recognized but not invoiced in unbilled accounts receivable on our Consolidated Balance Sheets.

Our revenues are primarily dependent on the number of clients enrolled, the resulting number of worksite employees paid each period and the number of worksite employees enrolled in our benefit plans. Because our total markup is computed as a percentage of payroll cost, certain revenues are also affected by the payroll cost of worksite employees, which may fluctuate based on the composition of the worksite employee base, inflationary effects on wage levels and differences in the local economies of our markets.

Direct Costs

The primary direct costs associated with our Workforce Optimization revenue-generating activities are:

- employment-related taxes ("payroll taxes")
- costs of employee benefit plans
- workers' compensation costs

Payroll taxes consist of the employer's portion of Social Security and Medicare taxes under FICA, federal unemployment taxes and state unemployment taxes. Payroll taxes are generally paid as a percentage of payroll cost. The federal tax rates are defined by federal regulations. State unemployment tax rates are subject to claim histories and vary from state to state.

Employee benefits costs are comprised primarily of health insurance premiums and claims costs (including dental and pharmacy costs), but also include costs of other employee benefits such as life insurance, vision care, disability insurance, education assistance, adoption assistance, a flexible spending account and a work-life program.

Workers' compensation costs include administrative and risk charges paid to the insurance carrier, and claims costs, which are driven primarily by the frequency and severity of claims.

Gross Profit

Our gross profit per worksite employee is primarily determined by our ability to accurately estimate and control direct costs and our ability to incorporate changes in these costs into the gross billings charged to Workforce Optimization clients, which are subject to contractual arrangements that are typically renewed annually. We use gross profit per worksite employee per month as our principal measurement of relative performance at the gross profit level.

Operating Expenses

- *Salaries, wages and payroll taxes* – Salaries, wages and payroll taxes are primarily a function of the number of corporate employees and their associated average pay and any additional incentive compensation. Our corporate employees include client services, sales and marketing, benefits, legal, finance, information technology, administrative support personnel and those associated with our ABUs.

- *Stock-based compensation* – Our stock-based compensation relates to the recognition of non-cash compensation expense over the vesting period of restricted stock awards.

- *Commissions* – Commission expense consists primarily of amounts paid to sales managers and BPAs. Commissions are based on the number of new accounts sold and a percentage of revenue generated by such personnel.

- *Advertising* – Advertising expense primarily consists of media advertising and other business promotions in our current and anticipated sales markets, including the Insperity Invitational™ presented by UnitedHealthcare® sponsorship. In 2011, certain costs were incurred as a result of our rebranding initiative and are also included in advertising.

- *General and administrative expenses* – Our general and administrative expenses primarily include:

    - rent expenses related to our service centers and sales offices
    - outside professional service fees related to legal, consulting and accounting services, and acquisition transaction expenses
    - administrative costs, such as postage, printing and supplies
    - employee travel expenses

- technology and facility repairs and maintenance costs
- rebranding initiative costs in 2011

- *Depreciation and amortization* – Depreciation and amortization expense is primarily a function of our capital investments in corporate facilities, service centers, sales offices, technology infrastructure and that associated with our acquisitions.

- *Impairment charge* – Non-cash expense associated with the decline in fair value of intangible assets, including goodwill. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

Income Taxes

Our provision for income taxes typically differs from the U.S. statutory rate of 35%, due primarily to state income taxes and non-deductible expenses. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax purposes. Significant items resulting in deferred income taxes include prepaid assets, accruals for workers' compensation expenses, stock-based compensation and depreciation. Changes in these items are reflected in our financial statements through a deferred income tax provision.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to health and workers' compensation insurance claims experience, client bad debts, income taxes, property and equipment, goodwill and other intangibles, and contingent liabilities. We base these estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following accounting policies are critical and/or require significant judgments and estimates used in the preparation of our Consolidated Financial Statements:

- *Benefits 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 of Hawaii, Unity Health Plan and Tufts, all of which provide fully insured policies or service contracts.

  The health insurance contract 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 the 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 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 benefits 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 we would accrue a liability for the excess costs on 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 on our Consolidated Balance Sheets. The terms of the arrangement with United require us to maintain an accumulated cash surplus in the plan of $9.0 million, which is reported as long-term prepaid insurance. As of December 31, 2013, Plan Costs were less than the premiums paid and owed to United by $13.5 million. As this amount is in excess of the agreed-upon $9.0 million surplus maintenance level, the $4.5 million balance is included in prepaid insurance, a current asset, on our

Results of Operations

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012.

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

	Year ended December 31,		
	2013	2012	% Change
	(in thousands, except per share and statistical data)		
Revenues (gross billings of $13.462 billion and $12.992 billion, less worksite employee payroll cost of $11.206 billion and $10.833 billion, respectively)	$2,256,112	$2,158,824	4.5 %
Gross profit	393,251	382,221	2.9 %
Operating expenses	337,028 (1)	314,727 (2)	7.1 %
Operating income	56,223	67,494	(16.7)%
Other income (expense)	(2,491) (3)	796	(412.9)%
Net income	32,032 (4)	40,402	(20.7)%
Diluted net income per share of common stock	1.25	1.56	(19.9)%
Statistical Data:			
Average number of worksite employees paid per month	127,517	125,650	1.5 %
Revenues per worksite employee per month[5]	$ 1,474	$ 1,432	2.9 %
Gross profit per worksite employee per month	257	253	1.6 %
Operating expenses per worksite employee per month	220	208	5.8 %
Operating income per worksite employee per month	37	45	(17.8)%
Net income per worksite employee per month	21	27	(22.2)%

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(1) Includes a non-cash impairment charge in the fourth quarter of 2013 of $3.3 million. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

(2) Includes a non-cash impairment charge in the fourth quarter of 2012 of $4.2 million. Please read Note 5 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

(3) Includes the impact of a $2.7 million non-cash impairment charge in the second quarter of 2013. Please read Note 6 to the Consolidated Financial Statements, "Other Assets," for additional information.

(4) Includes a $2.0 million tax benefit in the fourth quarter of 2013 related to tax years 2009 through 2012. Please read Note 9 to the Consolidated Financial Statements, "Income Taxes," for additional information.

(5) Gross billings of $8,797 and $8,617 per worksite employee per month, less payroll cost of $7,323 and $7,185 per worksite employee per month, respectively.

Revenues

Our revenues in 2013, which represent gross billings net of worksite employee payroll cost, increased 4.5% compared to 2012, due to a 2.9%, or $42 increase in revenues per worksite employee per month and a 1.5% increase in the average number of worksite employees paid per month. The 2.9% increase in revenues per worksite employee per month was due primarily to increases in the benefits and payroll tax pricing to offset increases in these direct costs.

By region, our Workforce Optimization revenue change from 2012 and distribution for the years ended December 31, 2013 and 2012 were as follows:

	Year ended December 31,			Year ended December 31,	
	2013	2012	% Change	2013	2012
	(in thousands)			(% of total revenue)	
Northeast	$ 577,280	$ 560,455	3.0%	26.0%	26.3%
Southeast	212,664	198,049	7.4%	9.6%	9.3%
Central	329,110	312,373	5.4%	14.8%	14.7%
Southwest	613,175	595,379	3.0%	27.6%	28.0%
West	488,047	461,427	5.8%	22.0%	21.7%
	2,220,276	2,127,683	4.4%	100.0%	100.0%
Other revenue[1]	35,836	31,141	15.1%		
Total revenue	$ 2,256,112	$ 2,158,824	4.5%		

[1] Comprised primarily of revenues generated by Adjacent Businesses.

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 2013, new client sales and the net change in existing clients remained flat, while client retention declined slightly compared to 2012. As a result, our year-over-year growth in worksite employees paid per month during 2013 was 1.5% compared to 7.5% during 2012.

Gross Profit

Gross profit was $393.3 million in 2013, a 2.9% increase over 2012. The average gross profit per worksite employee increased 1.6% to $257 per month in 2013 versus $253 in 2012. 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. Included in gross profit in 2013 is a $14 per worksite employee per month contribution from our Adjacent Businesses compared to $11 per worksite employee per month in the 2012 period.

While our revenues per worksite employee per month increased 2.9% to $1,474 in 2013 versus 2012, our direct costs, which primarily include payroll taxes, benefits and workers' compensation expenses, increased 3.2% to $1,217 per worksite employee per month. The primary direct cost components changed as follows:

- *Benefits costs* – The cost of group health insurance and related employee benefits increased $29 per worksite employee per month, or 4.7%, on a per covered employee basis compared to 2012. The percentage of worksite employees covered under our health insurance plan was 72.1% in both 2013 and 2012. Please read "—Critical Accounting Policies and Estimates – Benefits Costs" for a discussion of our accounting for health insurance costs.

- *Workers' compensation costs* – Workers' compensation costs increased 6.3%, or $2 per worksite employee per month compared to 2012. As a percentage of non-bonus payroll cost, workers' compensation costs increased to 0.55% in 2013 from 0.54% in 2012. During 2013, we recorded reductions in workers' compensation costs of $9.3 million, or 0.09% of non-bonus payroll costs, for changes in estimated losses related to prior reporting periods, compared to $13.1 million, or 0.14% of non-bonus payroll costs in 2012. The 2013 period costs include the impact of a 0.8% discount rate used to accrue workers' compensation loss claims, compared to a 0.6% discount rate used in the 2012 period. Please read "—Critical Accounting Policies and Estimates – Workers' Compensation Costs" for a discussion of our accounting for workers' compensation costs.

- *Payroll tax costs* – Payroll taxes increased 3.2%, or $9 per worksite employee per month compared to 2012, due primarily to a 3.4% increase in total payroll cost in 2013 and a $2.9 million, or $2 per worksite employee per month credit recognized in 2012 related to a Pennsylvania tax matter. Payroll taxes as a percentage of payroll cost decreased to 7.04% in 2013 compared to 7.05% in 2012.

Operating Expenses

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

	Year ended December 31,			Year ended December 31,		
	2013	2012	% Change	2013	2012	% Change
	(in thousands)			(per worksite employee per month)		
Salaries, wages and payroll taxes	$ 181,444	$ 168,807	7.5 %	$ 119	$ 112	6.3 %
Stock–based compensation	11,103	9,814	13.1 %	7	7	—
Commissions	14,581	14,515	0.5 %	9	10	(10.0)%
Advertising	23,795	21,586	10.2 %	16	14	14.3 %
General and administrative expenses	81,699	77,564	5.3 %	53	50	6.0 %
Impairment charge	3,342	4,191	(20.3)%	2	3	(33.3)%
Depreciation and amortization	21,064	18,250	15.4 %	14	12	16.7 %
Total operating expenses	$ 337,028	$ 314,727	7.1 %	$ 220	$ 208	5.8 %

Operating expenses were $337.0 million in 2013, a 7.1% increase over 2012. We recorded impairment charges of $3.3 million in our Expense Management reporting unit in 2013 and $4.2 million in our Performance Management reporting unit in 2012. Please read Note 5 to the Consolidated Financial Statements, “Goodwill and Other Intangible Assets,” for additional information. Operating expenses per worksite employee per month increased to $220 in 2013 from $208 in 2012. The components of operating expenses changed as follows:

- Salaries, wages and payroll taxes of corporate and sales staff increased 7.5%, or $7 per worksite employee per month compared to 2012, primarily due to a 6.4% rise in headcount, which includes additions in Business Performance Advisors, service and technology personnel.

- Stock-based compensation increased 13.1%, but remained flat on a per worksite employee per month basis compared to 2012, due primarily to an increase in the weighted average market value on the date of grant associated with restricted stock awards. The stock-based compensation expense represents amortization of restricted stock awards granted to employees and the annual stock grant made to non-employee directors. Please read Note 1 to the Consolidated Financial Statements, “Accounting Policies,” for additional information.

- Commissions expense increased 0.5%, but decreased $1 on a per worksite employee per month basis compared to 2012.

- Advertising costs increased 10.2%, or $2 per worksite employee per month compared to 2012, primarily due to increased spending on health care reform-related advertising and business promotions.

- General and administrative expenses increased 5.3%, or $3 per worksite employee per month, primarily due to increased travel, training, utilities, and repairs and maintenance, partially offset by reductions in professional services.

- Depreciation and amortization expense increased 15.4%, or $2 per worksite employee per month compared to 2012, primarily due to investments in our technology infrastructure and amortization associated with our Adjacent Business investments.

Other Income (Expense)

Other expense was $2.5 million in 2013 compared to other income of $0.8 million in 2012. Included in 2013 is a $2.7 million non-cash impairment charge related to our minority investment in The Receivables Exchange. Please read Note 6 to the Consolidated Financial Statements, “Other Assets,” for additional information.

Income Tax Expense

During 2013 we incurred federal and state income tax expense of $21.7 million on pre-tax income of $53.7 million. Our provision for income taxes differed from the US statutory rate of 35% primarily due to state income taxes and non-deductible expenses, partially offset by tax benefits of $2.5 million related to tax years 2009 through 2013. Our effective income tax rate was 40.4% in 2013 compared to 40.8% in 2012.

Net Income

Net income for 2012 was $40.4 million, or $1.56 per diluted share, compared to $30.5 million, or $1.16 per diluted share in 2011. On a per worksite employee per month basis, net income was $27 in 2012 compared to $22 in 2011.

Non-GAAP Financial Measures

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. 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. 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. 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 table below.

	Year ended December 31,		
	2013	2012	% Change
	(in thousands, except per worksite employee)		
GAAP to non-GAAP reconciliation:			
Payroll cost (GAAP)	$11,205,652	$10,832,966	3.4 %
Less: bonus payroll cost	1,274,575	1,326,442	(3.9)%
Non-bonus payroll cost	$ 9,931,077	$ 9,506,524	4.5 %
Payroll cost per worksite employee (GAAP)	$ 7,323	$ 7,185	1.9 %
Less: Bonus payroll cost per worksite employee	833	880	(5.3)%
Non-bonus payroll cost per worksite employee	$ 6,490	$ 6,305	2.9 %

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, debt service requirements 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 $272.1 million in cash, cash equivalents and marketable securities at December 31, 2013, of which approximately $143.0 million was payable in early January 2014 for withheld federal and state income taxes, employment taxes and other payroll deductions, and $24.5 million were customer prepayments that were payable in January 2014. At December 31, 2013, we had working capital of $128.6 million compared to $115.7 million at December 31, 2012. 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 2014. 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 $100 million revolving credit facility ("credit facility"), with a syndicate of financial institutions. The credit facility, which expires in September of 2015, is available for working capital and general corporate purposes, including acquisitions, and was undrawn at December 31, 2013. Please read Note 8 to the Consolidated Financial Statements, "Revolving Credit Facility," for additional information.

Cash Flows From Operating Activities

Our cash flows from operating activities in 2013 were $34.7 million. Our primary source of cash from operations is the comprehensive service fee and payroll funding we collect from our Workforce Optimization clients. 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 and at month-end; therefore, operating cash flows decrease in the reporting periods that end on a Friday. In the year ended December 31, 2013, which the last business day of the reporting period ended on a Tuesday, client prepayments were $24.5 million and accrued worksite employee payroll was $173.8 million. In the year ended December 31, 2012, which ended on a Monday, client prepayments were $13.5 million and accrued worksite employee payroll was $150.1 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 the 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 $50.0 million in 2013 and $46.7 million in 2012. However, our estimates of workers' compensation loss costs were $41.7 million and $36.9 million in 2013 and 2012, respectively. During 2013, we paid the insurance carrier an additional $5.0 million in claim funds for policy years prior to 2013, which resulted in a decrease to working capital. During 2012, we received $2.5 million for the return of excess claim funds related to the workers' compensation program, which 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. Since inception of the United plan, premiums paid and owed to United have exceeded Plan Costs, resulting in an $13.5 million surplus, $4.5 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 at December 31, 2013. The premiums owed to United at December 31, 2013, were $2.1 million, which is included in accrued health insurance costs, a current liability, on our Consolidated Balance Sheets.

- *Operating results* – Our net income has a significant impact on our operating cash flows. Our net income decreased 20.7% to $32.0 million in 2013 from $40.4 million in 2012. Please read "Results of Operations – *Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*."

Cash Flows Used in Investing Activities

Our cash flows used in investing activities were $43.0 million during 2013. We invested $11.6 million in capital expenditures, primarily related to our technology infrastructure. We also invested $31.5 million, net, in marketable securities.

Cash Flows Used in Financing Activities

Our cash flows used in financing activities were $30.4 million during 2013, primarily due to $17.2 million in share repurchases and $17.4 million in dividends paid.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Some of the information required by this item is incorporated by reference to the information set forth under the captions "Proposal Number 1: Election of Directors – Nominees – Class I Directors (For Terms Expiring at the 2017 Annual Meeting)," "– Directors Remaining in Office," and "– Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report (the "Insperity Proxy Statement").

Code of Business Conduct and Ethics

Our Board of Directors adopted our Code of Business Conduct and Ethics (the "Code of Ethics"), which meets the requirements of Rule 303A.10 of the New York Stock Exchange Listed Company Manual and Item 406 of Regulation S-K. You can access our Code of Ethics on the Corporate Governance page of our website at insperity.com. Changes in and waivers to the Code of Ethics for our directors, executive officers and certain senior financial officers will be posted on our Internet website within five business days and maintained for at least 12 months.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference to the information set forth under the captions "Proposal Number 1: Election of Directors – Director Compensation" and "—Executive Compensation" in the Insperity Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated by reference to the information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Insperity Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this item is incorporated by reference to the information set forth under the caption "Proposal Number 1: Election of Directors – Certain Relationships and Related Transactions" in the Insperity Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is incorporated by reference to the information set forth under the caption "Proposal Number 3: Ratification and Appointment of Independent Public Accountants – Fees of Ernst & Young LLP" and "—Finance, Risk Management and Audit Committee Pre-Approval Policy for Audit and Non-Audit Services" in the Insperity Proxy Statement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Insperity, Inc.

We have audited the accompanying Consolidated Balance Sheets of Insperity, Inc. as of December 31, 2013 and 2012, and the related Consolidated Statements of Operations, Comprehensive Income, Stockholders' Equity and Cash Flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Insperity, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Insperity, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (1992 framework) and our report dated February 10, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 10, 2014

MANAGEMENT'S REPORT ON INTERNAL CONTROL

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2013, based on the 1992 criteria established by *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework")*. The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by the Company's independent registered public accounting firm, as stated in their report that is included herein.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's assessment of the effectiveness of its internal control over financial reporting included testing and evaluating the design and operating effectiveness of its internal controls. In management's opinion, the Company has maintained effective internal control over financial reporting as of December 31, 2013, based on criteria established in the COSO Framework.

/s/ Paul J. Sarvadi
Paul J. Sarvadi
Chairman of the Board and
Chief Executive Officer

/s/ Douglas S. Sharp
Douglas S. Sharp
Senior Vice President of Finance
Chief Financial Officer and Treasurer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Insperity, Inc.

We have audited Insperity, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (1992 framework) (the COSO criteria). Insperity, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Insperity, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of Insperity, Inc. as of December 31, 2013 and 2012, and the related Consolidated Statements of Operations, Comprehensive Income, Stockholders' Equity and Cash Flows for each of the three years in the period ended December 31, 2013 of Insperity, Inc. and our report dated February 10, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 10, 2014

INSPERITY, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS

	December 31, 2013	December 31, 2012
Current assets:		
Cash and cash equivalents	$ 225,755	$ 264,544
Restricted cash	51,928	47,149
Marketable securities	46,340	16,904
Accounts receivable, net:		
Trade	7,453	6,931
Unbilled	199,628	181,040
Other	2,928	2,415
Prepaid insurance	10,638	15,620
Other current assets	12,053	9,651
Income taxes receivable	409	—
Deferred income taxes	8,185	7,211
Total current assets	565,317	551,465
Property and equipment:		
Land	4,115	4,115
Buildings and improvements	67,939	68,583
Computer hardware and software	85,241	81,140
Software development costs	38,522	35,866
Furniture and fixtures	36,479	36,717
Aircraft	35,879	35,879
	268,175	262,300
Accumulated depreciation and amortization	(181,760)	(168,358)
Total property and equipment, net	86,415	93,942
Other assets:		
Prepaid health insurance	9,000	9,000
Deposits – health insurance	3,700	3,000
Deposits – workers' compensation	81,878	64,201
Goodwill and other intangible assets, net	18,434	23,775
Other assets	1,816	4,817
Total other assets	114,828	104,793
Total assets	$ 766,560	$ 750,200

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2013	December 31, 2012
Current liabilities:		
Accounts payable	$ 2,678	$ 3,660
Payroll taxes and other payroll deductions payable	165,604	178,534
Accrued worksite employee payroll cost	173,801	150,070
Accrued health insurance costs	5,103	13,942
Accrued workers' compensation costs	52,930	49,484
Accrued corporate payroll and commissions	21,611	23,537
Other accrued liabilities	14,960	12,478
Income tax payable	—	4,054
Total current liabilities	436,687	435,759
Noncurrent liabilities:		
Accrued workers' compensation costs	68,905	64,536
Deferred income taxes	7,696	9,000
Total noncurrent liabilities	76,601	73,536
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.01 per share:		
Shares authorized – 20,000		
Shares issued and outstanding – none	—	—
Common stock, par value $0.01 per share:		
Shares authorized – 60,000		
Shares issued – 30,758 at December 31, 2013 and 2012	308	308
Additional paid-in capital	135,653	133,207
Treasury stock, at cost – 5,175 and 5,096 shares at December 31, 2013 and 2012, respectively	(138,688)	(133,950)
Accumulated other comprehensive income, net of tax	29	16
Retained earnings	255,970	241,324
Total stockholders' equity	253,272	240,905
Total liabilities and stockholders' equity	$ 766,560	$ 750,200

See accompanying notes.

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

	Year ended December 31,		
	2013	**2012**	**2011**
Revenues (gross billings of $13.462 billion, $12.992 billion and $11.700 billion, less worksite employee payroll cost of $11.206 billion, $10.833 billion and $9.724 billion, respectively)	$ 2,256,112	$ 2,158,824	$ 1,976,219
Direct costs:			
Payroll taxes, benefits and workers' compensation costs	1,862,861	1,776,603	1,624,444
Gross profit	393,251	382,221	351,775
Operating expenses:			
Salaries, wages and payroll taxes	181,444	168,807	155,233
Stock-based compensation	11,103	9,814	8,601
Commissions	14,581	14,515	13,451
Advertising	23,795	21,586	26,613
General and administrative expenses	81,699	77,564	75,345
Impairment charge	3,342	4,191	—
Depreciation and amortization	21,064	18,250	15,218
	337,028	314,727	294,461
Operating income	56,223	67,494	57,314
Other income (expense):			
Interest, net	158	609	969
Other, net	(2,649)	187	(7,508)
Income before income tax expense	53,732	68,290	50,775
Income tax expense	21,700	27,888	20,305
Net income	$ 32,032	$ 40,402	$ 30,470
Less distributed and undistributed earnings allocated to participating securities	(916)	(1,224)	(908)
Net income allocated to common shares	$ 31,116	$ 39,178	$ 29,562
Basic net income per share of common stock	$ 1.25	$ 1.57	$ 1.16
Diluted net income per share of common stock	$ 1.25	$ 1.56	$ 1.16

See accompanying notes.

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

	Year ended December 31,		
	2013	**2012**	**2011**
Net income	$ 32,032	$ 40,402	$ 30,470
Other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities, net of tax	13	(8)	3
Comprehensive income	$ 32,045	$ 40,394	$ 30,473

See accompanying notes.

INSPERITY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock Issued		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount					
Balance at December 31, 2010	30,839	$ 309	$ 135,607	$ (124,464)	$ 21	$ 228,922	$ 240,395
Purchase of treasury stock, at cost	—	—	—	(25,079)	—	—	(25,079)
Exercise of stock options	—	—	(1,042)	4,998	—	—	3,956
Income tax benefit from stock-based compensation, net	—	—	1,663	—	—	—	1,663
Stock-based compensation expense	—	—	(416)	9,017	—	—	8,601
Other	—	—	59	881	—	—	940
Dividends paid	—	—	—	—	—	(15,742)	(15,742)
Unrealized gain on marketable securities, net of tax	—	—	—	—	3	—	3
Net income	—	—	—	—	—	30,470	30,470
Balance at December 31, 2011	30,839	$ 309	$ 135,871	$ (134,647)	$ 24	$ 243,650	$ 245,207
Purchase of treasury stock, at cost	—	—	—	(13,773)	—	—	(13,773)
Repurchase of common stock	(81)	(1)	(3,161)	—	—	—	(3,162)
Exercise of stock options	—	—	(1,630)	3,879	—	—	2,249
Income tax benefit from stock-based compensation, net	—	—	1,751	—	—	—	1,751
Stock-based compensation expense	—	—	289	9,525	—	—	9,814
Other	—	—	87	1,066	—	—	1,153
Dividends paid	—	—	—	—	—	(42,728)	(42,728)
Unrealized loss on marketable securities, net of tax	—	—	—	—	(8)	—	(8)
Net income	—	—	—	—	—	40,402	40,402
Balance at December 31, 2012	30,758	$ 308	$ 133,207	$ (133,950)	$ 16	$ 241,324	$ 240,905
Purchase of treasury stock, at cost	—	—	—	(17,229)	—	—	(17,229)
Exercise of stock options	—	—	(790)	2,238	—	—	1,448
Income tax benefit from stock-based compensation, net	—	—	1,259	—	—	—	1,259
Stock-based compensation expense	—	—	1,798	9,305	—	—	11,103
Other	—	—	179	948	—	—	1,127
Dividends paid	—	—	—	—	—	(17,386)	(17,386)
Unrealized gain on marketable securities, net of tax	—	—	—	—	13	—	13
Net income	—	—	—	—	—	32,032	32,032
Balance at December 31, 2013	30,758	$ 308	$ 135,653	$ (138,688)	$ 29	$ 255,970	$ 253,272

See accompanying notes.

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

	Year ended December 31,		
	2013	**2012**	**2011**
Cash flows from operating activities:			
Net income	$ 32,032	$ 40,402	$ 30,470
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,033	18,183	15,218
Loss on exchange of assets	—	—	4,408
Impairment charges	6,021	4,191	—
Amortization of marketable securities	2,119	2,295	2,172
Stock-based compensation	11,103	9,814	8,601
Deferred income taxes	(2,288)	(5,743)	(46)
Changes in operating assets and liabilities, net of acquisitions:			
Restricted cash	(4,779)	(2,412)	(3,533)
Accounts receivable	(19,623)	(19,453)	(28,826)
Prepaid insurance	4,982	5,680	3,678
Other current assets	(2,402)	1,837	(2,862)
Other assets	(18,060)	(12,924)	(652)
Accounts payable	(982)	(1,425)	1,776
Payroll taxes and other payroll deductions payable	(12,930)	9,922	23,556
Accrued worksite employee payroll expense	23,731	19,753	20,620
Accrued health insurance costs	(8,839)	4,515	(5,992)
Accrued workers' compensation costs	7,815	7,418	8,791
Accrued corporate payroll, commissions and other accrued liabilities	556	2,353	(1,871)
Income taxes payable/receivable	(4,825)	6,392	(1,597)
Total adjustments	2,632	50,396	43,441
Net cash provided by operating activities	34,664	90,798	73,911
Cash flows from investing activities:			
Marketable securities:			
Purchases	(54,756)	(30,680)	(51,397)
Proceeds from maturities	15,201	32,619	31,706
Proceeds from dispositions	8,026	35,891	3,907
Investments and acquisitions, net of cash acquired	—	(2,410)	(14,555)
Property and equipment:			
Purchases	(11,562)	(17,631)	(31,440)
Proceeds from dispositions	57	69	82
Net cash provided by (used in) investing activities	(43,034)	17,858	(61,697)

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

	Year ended December 31,		
	2013	**2012**	**2011**
Cash flows from financing activities:			
Purchase of treasury stock	$ (17,229)	$ (13,773)	$ (25,079)
Repurchase of common stock	—	(3,162)	—
Dividends paid	(17,386)	(42,728)	(15,742)
Proceeds from the exercise of stock options	1,448	2,249	3,956
Income tax benefit from stock-based compensation	1,621	2,316	2,166
Other	1,127	(222)	(1,136)
Net cash used in financing activities	(30,419)	(55,320)	(35,835)
Net increase (decrease) in cash and cash equivalents	(38,789)	53,336	(23,621)
Cash and cash equivalents at beginning of year	264,544	211,208	234,829
Cash and cash equivalents at end of year	$ 225,755	$ 264,544	$ 211,208
Supplemental disclosures:			
Cash paid for income taxes	$ 27,191	$ 24,924	$ 19,782

In September 2011, we exchanged an existing aircraft with a fair value of $4.0 million and paid an additional $10.0 million to acquire a replacement aircraft, resulting in a non-cash loss of $4.4 million, which is included in other income (expense).

See accompanying notes.

1. Accounting Policies

Description of Business

Insperity, Inc., formerly named Administaff, Inc. ("Insperity" or "we", "our", and "us") provides an array of human resources ("HR") and business solutions designed to help improve business performance. Our name change, which was effective March 3, 2011, reflects our evolution over the past 27 years from a professional employer organization ("PEO"), an industry we pioneered, to our current position as a comprehensive business performance solutions provider. We were organized as a corporation in 1986 and have provided PEO services since inception.

Our most comprehensive HR business offering is provided through our PEO services, known as Workforce Optimization® solution, which encompasses a broad range of human resources functions, including payroll and employment administration, employee benefits, workers' compensation, government compliance, performance management, and training and development services.

In addition to Workforce Optimization, we offer Human Capital Management, Payroll Services, Time and Attendance, Performance Management, Organizational Planning, Recruiting Services, Employment Screening, Financial Services, Expense Management, Retirement Services and Insurance Services, (collectively "Adjacent Businesses"), many of which are offered via desktop applications and software as a service delivery models. These other products or services are offered separately, as a bundle, or along with Workforce Optimization.

We provide our Workforce Optimization solution by entering into a co-employment relationship with our clients, under which Insperity and its clients each take responsibility for certain portions of the employer-employee relationship. Insperity and its clients designate each party's responsibilities through its Client Services Agreement ("CSA"), under which Insperity becomes the employer of the employees who work at the client's location ("worksite employees") for most administrative and regulatory purposes.

As a co-employer of its worksite employees, we assume many of the rights and obligations associated with being an employer. We enter into an employment agreement with each worksite employee, thereby maintaining a variety of employer rights, including the right to hire or terminate employees, the right to evaluate employee qualifications or performance, and the right to establish employee compensation levels. Typically, Insperity only exercises these rights in consultation with its clients or when necessary to ensure regulatory compliance. The responsibilities associated with our role as employer include the following obligations with regard to our worksite employees: (i) to compensate its worksite employees through wages and salaries; (ii) to pay the employer portion of payroll-related taxes; (iii) to withhold and remit (where applicable) the employee portion of payroll-related taxes; (iv) to provide employee benefit programs; and (v) to provide workers' compensation insurance coverage.

In addition to our assumption of employer status for our worksite employees, our Workforce Optimization solution also includes other human resources functions for our clients to support the effective and efficient use of personnel in their business operations. To provide these functions, we maintain a significant staff of professionals trained in a wide variety of human resources functions, including employee training, employee recruiting, employee performance management, employee compensation, and employer liability management. These professionals interact and consult with clients on a daily basis to help identify each client's service requirements and to ensure that we are providing appropriate and timely personnel management services.

We provide our Workforce Optimization solution to small and medium-sized businesses in strategically selected markets throughout the United States. Significant markets include the following:

	Year ended December 31,		
	2013	2012	2011
Percentage of total Workforce Optimization revenues:			
Texas	26%	26%	27%
California	17%	17%	16%
New York	10%	9%	9%
Other	47%	48%	48%
Total	100%	100%	100%

Revenue and Direct Cost Recognition

We account for our Workforce Optimization revenues in accordance with Accounting Standards Codification ("ASC") 605-45, *Revenue Recognition, Principal Agent Considerations.* Our Workforce Optimization revenues are derived from our gross billings, which are based on (i) the payroll cost of its worksite employees; and (ii) a markup computed as a percentage of the payroll cost. The gross billings are invoiced concurrently with each periodic payroll of its worksite employees. Revenues, which exclude the payroll cost component of gross billings and therefore consist solely of markup, are recognized ratably over the payroll period as worksite employees perform their service at the client worksite. Revenues that have been recognized but not invoiced are included in unbilled accounts receivable on our Consolidated Balance Sheets.

In determining the pricing of the markup component of the gross billings, we take into consideration our estimates of the costs directly associated with our worksite employees, including payroll taxes, benefits and workers' compensation costs, plus an acceptable gross profit margin. As a result, our operating results are significantly impacted by our ability to accurately estimate, control and manage our direct costs relative to the revenues derived from the markup component of our gross billings.

Consistent with our revenue recognition policy, our direct costs do not include the payroll cost of our worksite employees. Our direct costs associated with our revenue generating activities are primarily comprised of all other costs related to our worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and workers' compensation insurance costs.

Segment Reporting

We operate one reportable segment under ASC 280, *Segment Reporting*.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Principles 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.

Concentrations of Credit Risk

Financial instruments that could potentially subject us to concentration of credit risk include accounts receivable and marketable securities.

Cash, Cash Equivalents and Marketable Securities

We invest our excess cash in federal government and municipal-based money market funds and debt instruments of U.S. municipalities. All highly liquid investments with stated maturities of three months or less from date of purchase are classified as cash equivalents. Liquid investments with stated maturities of greater than three months are classified as marketable securities in current assets.

We account for marketable securities in accordance with ASC 320, *Investments – Debt and Equity Securities*. We determine the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase, and re-evaluate such classification as of each balance sheet date. At December 31, 2013 and 2012, all of our investments in marketable securities were classified as available-for-sale, and as a result, were reported at fair value. Unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts from the date of purchase to maturity. Such amortization is included in interest income as an addition to or deduction from the coupon interest earned on the investments. We use the specific identification method of determining the cost basis in computing realized gains and losses on the sale of our available-for-sale securities. Realized gains and losses are included in other income.

Fair Value of Financial Instruments

The carrying amounts of cash, cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short-term maturities of these instruments.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives of property and equipment for purposes of computing depreciation are as follows:

Buildings and improvements	5-30 years
Computer hardware and software	1-5 years
Software development costs	3 years
Furniture and fixtures	5-7 years
Aircraft	15-20 years

Software development costs relate primarily to software coding, system interfaces and testing of our proprietary professional employer information systems and are accounted for in accordance with ASC 350-40, *Internal Use Software*. Capitalized software development costs are amortized using the straight-line method over the estimated useful lives of the software, generally three years. We recognized $3.6 million, $2.8 million and $1.6 million in amortization of capitalized computer software costs in 2013, 2012 and 2011, respectively. Unamortized computer software costs were $7.2 million and $8.2 million in 2013 and 2012, respectively.

We account for our software products in accordance with ASC 985-20, *Costs of Software to be Sold*. This Topic establishes standards of financial accounting and reporting for the costs of computer software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process, whether internally developed and produced or purchased.

We periodically evaluate our long-lived assets for impairment in accordance with ASC 360-10, *Property, Plant, and Equipment.* ASC 360-10 requires that an impairment loss be recognized for assets to be disposed of or held-for-use when the carrying amount of an asset is deemed to not be recoverable. If events or circumstances were to indicate that any of our long-lived assets might be impaired, we would assess recoverability based on the estimated undiscounted future cash flows to be generated from the applicable asset. In addition, we may record an impairment loss to the extent that the carrying value of the asset exceeded the fair value of the asset. Fair value is generally determined using an estimate of discounted future net cash flows from operating activities or upon disposal of the asset.

Goodwill and Other Intangible Assets

Our purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, ranging from three to 10 years.

2. Cash, Cash Equivalents and Marketable Securities

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

	December 31, 2013	December 31, 2012
	(in thousands)	
Overnight holdings:		
Money market funds (cash equivalents)	$ 192,040	$ 255,000
Investment holdings:		
Money market funds (cash equivalents)	42,913	26,087
Marketable securities	46,340	16,904
	281,293	297,991
Cash held in demand accounts	23,054	21,732
Outstanding checks	(32,252)	(38,275)
Total cash, cash equivalents and marketable securities	$ 272,095	$ 281,448
Cash and cash equivalents	$ 225,755	$ 264,544
Marketable securities	46,340	16,904
	$ 272,095	$ 281,448

Our cash and overnight holdings fluctuate based on the timing of the client's payroll processing cycle. Included in the cash balance as of December 31, 2013 and December 31, 2012, are $143.0 million and $158.2 million, respectively, in withholdings associated with federal and state income taxes, employment taxes and other payroll deductions, as well as $24.5 million and $13.5 million respectively, in client prepayments.

We account for our financial assets in accordance with ASC 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 tables summarize the levels of fair value measurements of our financial assets:

	Fair Value Measurements (in thousands)			
	December 31, 2013	Level 1	Level 2	Level 3
Money market funds	$ 234,953	$ 234,953	$ —	$ —
Municipal bonds	46,340	—	46,340	—
Total	$ 281,293	$ 234,953	$ 46,340	$ —

	Fair Value Measurements (in thousands)			
	December 31, 2012	Level 1	Level 2	Level 3
Money market funds	$ 281,087	$ 281,087	$ —	$ —
Municipal bonds	16,904	—	16,904	—
Total	$ 297,991	$ 281,087	$ 16,904	$ —

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	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
December 31, 2013				
Municipal bonds	$ 46,290	$ 51	$ (1)	$ 46,340
December 31, 2012				
Municipal bonds	$ 16,878	$ 29	$ (3)	$ 16,904

For the years ended December 31, 2013 and 2012 we realized a $3,000 and $58,000 gain on sales of available-for-sale marketable securities. For the year ended December 31, 2011, we had no realized gains or losses recognized on sales of available-for-sale marketable securities.

As of December 31, 2013, the contractual maturities of our marketable securities were as follows:

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Less than one year	$ 29,077	$ 29,098
One to five years	17,213	17,242
Total	$ 46,290	$ 46,340

3. Accounts Receivable

Our accounts receivable is primarily composed of trade receivables and unbilled receivables. Our trade receivables, which represent outstanding gross billings to customers, are reported net of allowance for doubtful accounts of $0.9 million and $1.0 million as of December 31, 2013 and 2012, respectively. We establish an allowance for doubtful accounts based on management's assessment of the collectability of specific accounts and by making a general provision for other potentially uncollectible amounts.

We make an accrual at the end of each accounting period for our obligations associated with the earned but unpaid wages of our worksite employees and for the accrued gross billings associated with such wages. These accruals are included in accrued worksite employee payroll cost and unbilled accounts receivable; however, these amounts are presented net in the Consolidated Statements of Operations. We generally require clients to pay invoices for service fees no later than one day prior to the applicable payroll date. As such, we generally do not require collateral. Customer prepayments directly attributable to unbilled accounts receivable have been netted against such receivables as the gross billings have been earned and the payroll cost has been incurred, thus we have the legal right of offset for these amounts. Unbilled accounts receivable consisted of the following:

	December 31, 2013	December 31, 2012
	(in thousands)	
Accrued worksite employee payroll cost	$ 173,801	$ 150,070
Unbilled revenues	50,286	44,483
Customer prepayments	(24,459)	(13,513)
Unbilled accounts receivable	$ 199,628	$ 181,040

4. Deposits

The contractual arrangement with United for health insurance coverage requires us to maintain an accumulated cash surplus in the plan of $9.0 million, which is reported as long-term prepaid health insurance. Please read Note 1, "Accounting Policies," for a discussion of our accounting policies for health insurance costs.

As of December 31, 2013, we had $3.7 million in health insurance long-term deposits. Please read Note 1 "Accounting Policies" for a discussion of our accounting policies for health insurance costs.

As of December 31, 2013, we had $81.9 million in workers' compensation long-term deposits. Please read Note 1 "Accounting Policies" for a discussion of our accounting policies for workers' compensation costs.

5. Goodwill and Other Intangible Assets

The following table provides the gross carrying amount and accumulated amortization for each class of intangible assets:

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Amortizable intangible assets:						
Trademarks	$ 1,230	$ (680)	$ 550	$ 1,285	$ (571)	$ 714
Customer relationships	7,784	(4,340)	3,444	9,643	(3,790)	5,853
Total intangible assets	$ 9,014	$ (5,020)	$ 3,994	$ 10,928	$ (4,361)	$ 6,567

Our amortization expense related to purchased intangible assets other than goodwill was $2.0 million in 2013, $1.8 million in 2012 and $1.7 million in 2011, and is estimated to be $1.6 million in 2014, $1.3 million in 2015, $695,000 in 2016, $522,000 in 2017 and $79,000 in 2018.

During the fourth quarter of 2013 and 2012, we performed step one of the annual impairment testing for each of our reporting units and concluded the estimated fair value of our Expense Management and Performance Management reporting units, respectively, were below their respective carrying values. The declines in the estimated fair values of Expense Management and Performance Management resulted primarily from lower projected revenue growth rates and profitability levels. The timing of the lower revenue growth rates and profitability level revisions coincided with the timing of our overall forecasting process for all reporting units, which is performed in the fourth quarter of each calendar year. Upon completion of step two of the goodwill impairment test, we recognized goodwill and other intangible asset impairment write-downs of $3.3 million in 2013 related to our Expense Management reporting unit, and $4.2 million in 2012 related to our Performance Management reporting unit. The fair value of the reporting units was estimated using a discounted cash flow model, which we believe appropriately estimates the fair value of the reporting units. The material assumptions used in the model included the weighted average cost of capital and long-term growth rates. We consider this a Level 3 fair value measure.

The following table provides the gross carrying amount and accumulated impairment for goodwill:

	Year ended December 31,	
	2013	2012
	(in thousands)	
Gross amount:		
Aggregate goodwill acquired	$ 21,156	$ 21,156
Accumulated impairment loss:		
Beginning balance	(3,948)	—
Impairment	(2,768)	(3,948)
Ending balance	(6,716)	(3,948)
Goodwill, net	$ 14,440	$ 17,208

6. Other Assets

In 2011, we acquired a minority interest in The Receivables Exchange ("TRE"), an online marketplace for the sale of accounts receivable, for $2.8 million. In the second quarter of 2013, TRE issued similar securities at per share amounts substantially below the per share book value of our investment. Accordingly, we valued the investment based on a similar security market transaction, which is a Level 2 valuation technique. This resulted in a non-cash impairment charge of $2.7 million, which is included in other income (expense) in our Consolidated Statements of Operations in 2013. Due to federal income tax limitations on capital losses, no tax benefit associated with the impairment was recognized.

7. Acquisitions

We account for our acquisitions in accordance with ASC 805, *Business Combinations,* which requires allocation of the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on the fair value at the date of purchase. All acquisition related costs are expensed as incurred and recorded in operating expenses. We include operations associated with acquisitions from the date of acquisition forward.

In January 2011, we acquired certain assets from HumanConcepts, a provider of workforce decision support solutions. We acquired ownership of the OrgPlus desktop software product line (“OrgPlus”), targeted at small and medium-sized businesses, and its associated customer base, as well as a source code license for a SaaS based version. The OrgPlus software facilitates creation, management and communication of detailed organizational charts. The acquisition represents our continued business strategy to expand the sales opportunity of our human resources services as well as the solutions available to our current and prospective clients. We paid $10.8 million upon the closing of the transaction and paid an additional $1.2 million in 2012 based on the terms of the agreement.

In June 2010, we acquired OneMind Connect, Inc. which conducted business under the name “ExpensAble,” and provides expense report management solutions delivered as both a SaaS and as a desktop software product. The acquisition of ExpensAble extends the sales opportunity of our human resources services as well as the solutions available to our current and prospective clients. We paid $5.5 million upon the closing of the transaction and paid an additional $1.3 million in 2011 based on the terms of the agreement.

In July 2010, we acquired certain assets from Galaxy Technologies, Inc. in an effort to expand the sales opportunity of our human resources services as well as the solutions available to our current and prospective clients. The primary assets acquired include time and attendance software solutions, which are delivered through a SaaS model and as a desktop software product, and the associated customer base. We paid $7.4 million upon the closing of the transaction and an additional $1.4 million in each of 2011 and 2012, respectively, based on the terms of the purchase agreement.

8. Revolving Credit Facility

On September 15, 2011, we entered into a four-year, $100 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 is available for working capital and general corporate purposes, including acquisitions, and issuances of letters of credit. Our obligations under the Facility are secured by 65% of the stock of our captive insurance subsidiary and are guaranteed by all of our domestic subsidiaries. At December 31, 2013, we had not drawn on the Facility.

The Facility matures on September 15, 2015. Borrowings under the Facility bear interest at an alternate base rate or LIBOR, at our option, plus an applicable margin. Depending on our leverage ratio, the applicable margin varies (i) in the case of LIBOR loans, from 2.00% to 2.75% and (ii) in the case of alternate base rate loans, from 0.00% to 0.75%. The alternate base rate is the highest of (i) the prime rate most recently published in The Wall Street Journal, (ii) the federal funds rate plus 0.50% and (iii) the 30-day LIBOR rate plus 2.00%. We also pay an unused commitment fee on the average daily unused portion of the Facility at a rate of 0.25%. Interest expense and unused commitment fees are recorded in other income (expense).

The Facility contains both affirmative and negative covenants, which we believe are customary for arrangements of this nature. Covenants include, but are not limited to, limitations on our ability to incur additional indebtedness, sell material assets, retire, redeem or otherwise reacquire our capital stock, acquire the capital stock or assets of another business, make investments and pay dividends. In addition, the Credit Agreement requires us to comply with financial covenants limiting our total funded debt, minimum interest coverage ratio and maximum leverage ratio. In December 2012, the Credit Agreement was amended to modify the interest coverage ratio covenant to exclude the impact of the $25.7 million special dividend. We were in compliance with all financial covenants under the Credit Agreement at December 31, 2013.

12. Net Income Per Share

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:

	Year ended December 31,		
	2013	**2012**	**2011**
		(in thousands)	
Net income	$ 32,032	$ 40,402	$ 30,470
Less distributed and undistributed earnings allocated to participating securities	(916)	(1,224)	(908)
Net income allocated to common shares	$ 31,116	$ 39,178	$ 29,562
Weighted average common shares outstanding	24,850	25,007	25,405
Incremental shares from assumed conversions of common stock options	22	60	92
Adjusted weighted average common shares outstanding	24,872	25,067	25,497
Potentially dilutive securities not included in weighted average share calculation due to anti-dilutive effect	8	29	29

13. Leases

We lease various office facilities, furniture, equipment and vehicles under operating lease arrangements, some of which contain rent escalation clauses. Most of the leases contain purchase and/or renewal options at fair market and fair rental value, respectively. Rental expense relating to all operating leases was $13.9 million, $13.8 million and $14.0 million in 2013, 2012 and 2011, respectively. At December 31, 2013, future minimum rental payments under noncancelable operating leases are as follows:

	Operating Leases
	(in thousands)
2014	$ 12,763
2015	11,985
2016	9,776
2017	6,507
2018	5,091
Thereafter	5,865
Total minimum lease payments	$ 51,987

14. Commitments and Contingencies

We enter into non-cancelable fixed purchase and service obligations in the ordinary course of business. These arrangements primarily consist of advertising commitments and service contracts. At December 31, 2013, future non-cancelable purchase and service obligations greater than $100,000 and one year were as follows (in thousands):

2014	$	6,448
2015		7,164
2016		5,267
2017		1,758
2018		1,770
Thereafter		4,344
Total obligations	$	26,751

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, except as set forth below, management believes the final outcome of such litigation will not have a material adverse effect on our financial position or results of operations.

Texas Sales and Use Tax Assessments

In July 2008, we purchased a used aircraft (the “2008 Aircraft”) with the intent to immediately lease it to an aircraft charter service under 14 C.F.R. Part 135 (the “2008 Aircraft Purchase”). In connection with the 2008 Aircraft Purchase, we sought and received a letter ruling from the State of Texas Comptroller’s Tax Policy Division (the “Comptroller’s Ruling”). The Comptroller’s Ruling concluded that the 2008 Aircraft Purchase and lease qualified for the “sale for resale” exemption to sales and use taxes. In 2011, we purchased a used aircraft in a transaction that included the trade-in of the 2008 Aircraft with the intent to immediately lease the newly-purchased aircraft to the same aircraft charter service under Part 135 (“the 2011 Aircraft Purchase”). The structure of the 2011 Aircraft Purchase and lease transaction was patterned after the 2008 Aircraft Purchase. In accordance with the Comptroller’s Ruling, we did not pay sales or use tax on either the 2008 Aircraft Purchase or the 2011 Aircraft Purchase.

The Comptroller’s Office has since changed its view as expressed in the Comptroller’s Ruling and is now asserting that the 2008 Aircraft Purchase and the 2011 Aircraft Purchase are subject to sales and use tax. In May 2012, the Comptroller’s Office issued a notification of examination results regarding the 2008 Aircraft Purchase. It has assessed approximately $782,000 in taxes but waived any claim for interest and did not assess any penalty. In a separate matter regarding the 2011 Aircraft Purchase, the Comptroller’s Office issued its notification of examination results in December 2013 and assessed approximately $933,000 in taxes, penalties and interest.

We have filed requests for redetermination disputing both assessments and are seeking hearings concerning them. We believe the assessments are without merit and intend to vigorously contest them. At this time, we are unable to determine the ultimate outcome of these matters. However, in the event the State of Texas succeeds with enforcement of the assessments, we may be required to pay some or all of the assessments, which would reduce net income in the reported period.

Massachusetts Tax Assessment

During the fourth quarter of 2012, we received assessments of approximately $2.5 million, including interest and penalties, related to the alleged underpayment of corporate income taxes to the State of Massachusetts for tax years 2006 through 2008. In 2009, we received similar assessments of approximately $470,000, including interest and penalties, which covered tax years 2003 through 2005. However, in 2013 Massachusetts withdrew its assessment regarding the 2003 to 2005 periods. We believe the remaining assessments are without merit and intend to vigorously contest them. At this time, we are unable to determine the ultimate outcome of this matter. However, in the event the State of Massachusetts succeeds with enforcement of the assessments, we may be required to pay some or all of the assessments, which would reduce net income and could have a material adverse effect on net income in the reported period.