UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT

TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

August 24, 2006

Date of report

PATTERSON COMPANIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Minnesota	**0-20572**	**41-0886515**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

1031 Mendota Heights Road

St. Paul, Minnesota 55120

(Address of Principal Executive Offices, including Zip Code)

(651) 686-1600

(Registrant s Telephone Number, including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On August 24, 2006, Patterson Companies, Inc. issued a press release announcing its financial results for the first quarter of fiscal year 2007 ended July 29, 2006. A copy of the press release is furnished as Exhibit 99 to this Current Report on Form 8-K and is incorporated by reference herein.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) EXHIBITS

99 Press release of Patterson Companies, Inc. dated August 24, 2006.

SIGNATURES

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

PATTERSON COMPANIES, INC.

Date: August 24, 2006

By: /s/ R. Stephen Armstrong
R. Stephen Armstrong
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	**Description**
99	Press release of Patterson Companies, Inc., dated August 24, 2006.

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/s/ Richard G. Rawson

President and Director
Richard G. Rawson

/s/ Douglas S. Sharp

Senior Vice President of Finance
Douglas S. Sharp

Chief Financial Officer and Treasurer

(Principal Financial Officer)

*

Director
Michael W. Brown

*

Director
Peter A. Feld

*

Director
Eli Jones

*

Director
Carol R. Kaufman

*

Director
Michelle McKenna-Doyle

*

Director
Norman R. Sorensen

/s/ Austin P. Young

Director
Austin P. Young

*By: /s/ Daniel D. Herink

Daniel D. Herink, attorney-in-fact

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INSPERITY, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2015 and 2014, 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, 2015. 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, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, 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, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 12, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 12, 2016

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MANAGEMENT'S REPORT ON INTERNAL CONTROL

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (2013 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, 2015 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, 2015, based on criteria established in the COSO 2013 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

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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, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 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, 2015, 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, 2015 and 2014, 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, 2015 of Insperity, Inc. and our report dated February 12, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
February 12, 2016

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INSPERITY, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS

	December 31, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$269,538	$276,456
Restricted cash	37,418	44,040
Marketable securities	9,875	28,631
Accounts receivable, net:		
Trade	7,691	12,010
Unbilled	190,715	160,154
Other	2,259	2,952
Prepaid insurance	7,417	21,301
Other current assets	17,135	17,649
Total current assets	542,048	563,193
Property and equipment:		
Land	5,214	5,214
Buildings and improvements	70,273	70,471
Computer hardware and software	90,654	89,204
Software development costs	45,762	41,314
Furniture, fixtures and other	39,919	38,604
Aircraft	—	35,879
	251,822	280,686
Accumulated depreciation and amortization	(190,063)	(196,341)
Total property and equipment, net	61,759	84,345
Other assets:		
Prepaid health insurance	9,000	9,000
Deposits – health insurance	3,700	3,700
Deposits – workers’ compensation	136,462	113,934
Goodwill and other intangible assets, net	13,588	14,457
Deferred income taxes, net	16,976	2,241
Other assets	1,379	1,725
Total other assets	181,105	145,057
Total assets	$784,912	$792,595

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2015	December 31, 2014
Current liabilities:		
Accounts payable	$5,381	$4,674
Payroll taxes and other payroll deductions payable	205,393	176,341
Accrued worksite employee payroll cost	161,917	192,396
Accrued health insurance costs	13,643	18,329
Accrued workers' compensation costs	39,053	45,592
Accrued corporate payroll and commissions	39,103	32,644
Other accrued liabilities	20,250	22,444
Income tax payable	2,971	4,031
Total current liabilities	487,711	496,451
Noncurrent liabilities:		
Accrued workers' compensation costs	124,746	92,048
Total noncurrent liabilities	124,746	92,048
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, 2015 and 2014	308	308
Additional paid-in capital	144,701	137,769
Treasury stock, at cost – 6,493 and 5,425 at December 31, 2015 and 2014, respectively	(205,325)	(148,465)
Accumulated other comprehensive income, net of tax	—	3
Retained earnings	232,771	214,481
Total stockholders' equity	172,455	204,096
Total liabilities and stockholders' equity	$784,912	$792,595

See accompanying notes.

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

	Year ended December 31,		
	2015	2014	2013
Revenues (gross billings of $15.806 billion, $14.187 billion and $13.462 billion, less worksite employee payroll cost of $13.202 billion, $11.829 billion and $11.206 billion, respectively)	$2,603,614	$2,357,788	$2,256,112
Direct costs:			
Payroll taxes, benefits and workers' compensation costs	2,165,747	1,953,983	1,862,861
Gross profit	437,867	403,805	393,251
Operating expenses:			
Salaries, wages and payroll taxes	211,060	200,118	181,444
Stock-based compensation	13,345	11,053	11,103
Commissions	18,479	15,285	14,581
Advertising	15,980	20,084	21,508
General and administrative expenses	84,259	84,717	83,986
Impairment charges and other	10,480	3,687	3,342
Depreciation and amortization	18,565	21,387	21,064
	372,168	356,331	337,028
Operating income	65,699	47,474	56,223
Other income (expense):			
Interest, net	33	106	158
Other, net	(113)	47	(2,649)
Income before income tax expense	65,619	47,627	53,732
Income tax expense	26,229	19,623	21,700
Net income	$39,390	$28,004	$32,032
Less distributed and undistributed earnings allocated to participating securities	(981)	(2,002)	(916)
Net income allocated to common shares	$38,409	$26,002	$31,116
Basic net income per share of common stock	$1.58	$1.05	$1.25
Diluted net income per share of common stock	$1.58	$1.05	$1.25

See accompanying notes.

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

	Year ended December 31,		
	2015	2014	2013
Net income	$39,390	$28,004	$32,032
Other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities, net of tax	(3)	(26)	13
Comprehensive income	$39,387	$27,978	$32,045

See accompanying notes.

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

	Common Stock Issued Shares	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
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
Purchase of treasury stock, at cost	—	—	—	(20,769)	—	—	(20,769)
Exercise of stock options	—	—	(180)	459	—	—	279
Income tax benefit from stock-based compensation, net	—	—	488	—	—	—	488
Stock-based compensation expense	—	—	1,592	9,461	—	—	11,053
Other	—	—	216	1,072	—	—	1,288
Dividends paid	—	—	—	—	—	(69,493)	(69,493)
Unrealized loss on marketable securities, net of tax	—	—	—	—	(26)	—	(26)
Net income	—	—	—	—	—	28,004	28,004
Balance at December 31, 2014	30,758	$308	$137,769	$(148,465)	$ 3	$214,481	$204,096
Purchase of treasury stock, at cost	—	—	—	(67,113)	—	—	(67,113)
Exercise of stock options	—	—	(3)	377	—	—	374
Income tax benefit from stock-based compensation, net	—	—	2,216	—	—	—	2,216
Stock-based compensation expense	—	—	4,239	9,053	—	53	13,345
Other	—	—	480	823	—	—	1,303
Dividends paid	—	—	—	—	—	(21,153)	(21,153)
Unrealized loss on marketable securities, net of tax	—	—	—	—	(3)	—	(3)
Net income	—	—	—	—	—	39,390	39,390
Balance at December 31, 2015	30,758	$308	$144,701	$(205,325)	$ —	$232,771	$172,455

See accompanying notes.

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

	Year ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	$39,390	$28,004	$32,032
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,565	21,387	21,064
Impairment charges and other	10,480	3,687	6,021
Amortization of marketable securities	836	1,891	2,119
Stock-based compensation	13,345	11,053	11,103
Deferred income taxes	(14,733)	(1,733)	(2,288)
Changes in operating assets and liabilities:			
Restricted cash	6,622	7,888	(4,779)
Accounts receivable	(25,549)	34,893	(19,623)
Prepaid insurance	13,884	(10,663)	4,982
Other current assets	514	(5,596)	(2,402)
Other assets	(22,069)	(32,013)	(18,091)
Accounts payable	707	1,996	(982)
Payroll taxes and other payroll deductions payable	29,052	10,737	(12,930)
Accrued worksite employee payroll expense	(30,479)	18,595	23,731
Accrued health insurance costs	(4,686)	13,226	(8,839)
Accrued workers’ compensation costs	26,159	15,805	7,815
Accrued corporate payroll, commissions and other accrued liabilities	4,105	18,517	556
Income taxes payable/receivable	(1,060)	4,039	(4,825)
Total adjustments	25,693	113,709	2,632
Net cash provided by operating activities	65,083	141,713	34,664
Cash flows from investing activities:			
Marketable securities:			
Purchases	(10,558)	(69,578)	(54,756)
Proceeds from maturities	10,593	28,494	15,201
Proceeds from dispositions	17,869	56,880	8,026
Property and equipment:			
Purchases	(17,844)	(19,124)	(11,562)
Proceeds from sale of aircraft	12,159	—	—
Proceeds from dispositions	153	122	57
Net cash provided by (used in) investing activities	12,372	(3,206)	(43,034)

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

	Year ended December 31,		
	2015	2014	2013
Cash flows from financing activities:			
Purchase of treasury stock	$(67,113)	$(20,769)	$(17,229)
Dividends paid	(21,153)	(69,493)	(17,386)
Proceeds from the exercise of stock options	374	279	1,448
Income tax benefit from stock-based compensation	2,216	889	1,621
Other	1,303	1,288	1,127
Net cash used in financing activities	(84,373)	(87,806)	(30,419)
Net increase (decrease) in cash and cash equivalents	(6,918)	50,701	(38,789)
Cash and cash equivalents at beginning of year	276,456	225,755	264,544
Cash and cash equivalents at end of year	$269,538	$276,456	$225,755
Supplemental disclosures:			
Cash paid for income taxes, net	$39,806	$16,429	$27,191

See accompanying notes.

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INSPERITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

1. Accounting Policies

Description of Business

Insperity, Inc. (“Insperity” or “we”, “our”, and “us”) provides an array of human resources (“HR”) and business solutions designed to help improve business performance. Since our formation in 1986, we have evolved from being solely 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 services offerings are provided through our Workforce Optimization® and Workforce Synchronization™ solutions (together, our “PEO HR Outsourcing solutions”), which encompass 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, along with our cloud-based human capital management platform, the Employee Service Center℠ (“ESC”).

In addition to our PEO HR Outsourcing solutions, 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 and Expense Management services, Retirement Services and Insurance Services, many of which are offered via desktop applications and cloud-based delivery models. These other products and services are offered separately, as a bundle, or along with our PEO HR Outsourcing solutions.

We provide our PEO HR Outsourcing solutions 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 Service 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 PEO HR Outsourcing solutions also include 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.

Revenue and Direct Cost Recognition

We account for our PEO HR Outsourcing solutions revenues in accordance with Accounting Standards Codification (“ASC”) 605-45, Revenue Recognition, Principal Agent Considerations. Our PEO HR Outsourcing solutions revenues are primarily 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.

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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 our 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, 2015 and 2014, 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.

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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	2-5 years
Software development costs	3-5 years
Furniture, fixtures and other	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 $3.3 million, $4.1 million and $3.6 million in amortization of capitalized computer software costs in 2015, 2014 and 2013, respectively. Unamortized software development costs were $7.1 million and $6.0 million in 2015 and 2014, 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. Due to a change in office consolidation plans, we recorded a $1.2 million non-cash charge related to office design fees in 2014.

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.

Our goodwill and intangible assets are subject to the provisions of ASC 350, Intangibles – Goodwill and Other. Accordingly, we perform our annual goodwill impairment testing as of December 31st of each calendar year or earlier if indicators of impairment exist on an interim basis. Step one of the impairment testing involves a comparison of the estimated fair value of a reporting unit to the related carrying value. Fair value is estimated using a discounted cash flow model. If the estimated fair value is less than its related carrying value, step two of the goodwill impairment test is completed, which involves allocating the estimated fair value of the reporting unit to individual assets and liabilities. If the carrying value of goodwill is greater than the estimated fair value, an impairment exists, which results in a write-down of the goodwill to the estimated fair value. Furthermore, ASC 350 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. Please read Note 5, "Goodwill and Other Intangible Assets," for additional information.

Health Insurance Costs

We provide group health insurance coverage to our worksite employees through a national network of carriers including UnitedHealthcare (“United”), UnitedHealthcare of California, Kaiser Permanente, Blue Shield of California, HMSA BlueCross BlueShield and Tufts, all of which provide fully insured policies or service contracts. In 2015, we terminated our relationship with Unity Health Plan.

The policy with United provides the majority of our health insurance coverage. As a result of certain contractual terms, we have accounted for this plan since its inception using a partially self-funded insurance accounting model.

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Accordingly, we record the cost of the United portion of the 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 each 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 a liability for the excess costs would be accrued in our Consolidated Balance Sheets. On the other hand, if the Plan Costs for the reporting quarter are less than the premiums paid and owed to United, a surplus in the plan would be incurred and we would record an asset for the excess premiums in our Consolidated Balance Sheets. The terms of the arrangement require us to maintain an accumulated cash surplus in the plan of $9.0 million, which is reported as long-term prepaid insurance. In addition, United requires a deposit equal to approximately one day of claims funding activity, which was $3.5 million as of December 31, 2015, and is reported as a long-term asset. As of December 31, 2015, Plan Costs were less than the net premiums paid and owed to United by $2.2 million. As this amount is less than the agreed-upon $9.0 million surplus maintenance level, the $6.8 million difference is included in accrued health insurance costs, a current liability, in our Consolidated Balance Sheets. In addition, the premiums owed to United at December 31, 2015, were $3.1 million, which is also included in accrued health insurance costs, a current liability in our Consolidated Balance Sheets.

Workers’ Compensation Costs

Our workers’ compensation coverage has been provided through an arrangement with the ACE Group of Companies (“the ACE Program”) since 2007. The ACE Program is fully insured in that ACE has the responsibility to pay all claims incurred regardless of whether we satisfy our responsibilities. Under the ACE Program, we bear the economic burden for the first $1 million layer of claims per occurrence, and effective October 1, 2010, we also bear the economic burden for a maximum aggregate amount of $5 million per policy year for claim amounts that exceed the first $1 million. ACE bears the economic burden for all claims in excess of these levels.

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

We employ a third party actuary to estimate our loss development rate, which is primarily based upon the nature of worksite employees’ job responsibilities, the location of worksite employees, the historical frequency and severity of workers compensation claims, and an estimate of future cost trends. Each reporting period, changes in the actuarial assumptions resulting from changes in actual claims experience and other trends are incorporated into our workers’ compensation claims cost estimates. During the years ended December 31, 2015 and 2014, we reduced accrued workers’ compensation costs by $1.3 million and $2.9 million, respectively, for changes in estimated losses related to prior reporting periods. Workers’ compensation cost estimates are discounted to present value at a rate based upon the U.S. Treasury rates that correspond with the weighted average estimated claim payout period (the average discount rate utilized in both 2015 and 2014 was 1.0%) and are accreted over the estimated claim payment period and included as a component of direct costs in our Consolidated Statements of Operations.

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

	Year ended December 31,	
	2015	2014
	(in thousands)	
Beginning balance	$136,088	$120,833
Accrued claims	67,559	55,971
Present value discount	(3,095)	(1,998)
Paid claims	(38,368)	(38,718)
Ending balance	$162,184	$136,088
Current portion of accrued claims	$37,438	$44,040
Long-term portion of accrued claims	124,746	92,048
	$162,184	$136,088

The current portion of accrued workers' compensation costs at December 31, 2015 and 2014 includes $1.6 million of workers' compensation administrative fees in both periods.

As of December 31, the undiscounted accrued workers' compensation costs were $172.3 million in 2015 and $145.8 million in 2014.

At the beginning of each policy period, the insurance carrier establishes monthly funding requirements comprised of premium costs and funds to be set aside for payment of future claims ("claim funds"). The level of claim funds is primarily based upon anticipated worksite employee payroll levels and expected workers' compensation loss rates, as determined by the insurance carrier. Monies funded into the program for incurred claims expected to be paid within one year are recorded as restricted cash, a short-term asset, while the remainder of claim funds are included in deposits, a long-term asset in our Consolidated Balance Sheets. In 2015, we received $5.3 million for the return of excess claim funds related to the workers' compensation program, which decreased deposits. As of December 31, 2015, we had restricted cash of $37.4 million and deposits of $136.5 million.

Our estimate of incurred claim costs expected to be paid within one year is included in short-term liabilities, while our estimate of incurred claim costs expected to be paid beyond one year are included in long-term liabilities on our Consolidated Balance Sheets.

Stock-Based Compensation

At December 31, 2015, we have two stock-based employee compensation plans under which we may issue awards. We account for these plans under the recognition and measurement principles of ASC 718, Compensation – Stock Compensation, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

We generally make annual grants of restricted and unrestricted stock under our stock-based incentive compensation plans to our directors, officers and other management. Restricted stock grants to officers and other management vest over three to five years from the date of grant. Restricted stock grants issued to directors upon their initial appointment to the board are one-third vested on each anniversary of the grant date. Annual stock grants issued to directors are 100% vested on the grant date. Shares of restricted stock are based on fair value on date of grant and the associated expense, net of estimated forfeitures, is recognized over the vesting period.

In 2015, we adopted the Insperity Long-Term Incentive Program (the “LTIP”). The LTIP provides for performance based long-term compensation awards in the form of performance units to certain employees based on the achievement of pre-established performance goals. Each performance unit represents the right to receive one common share at a future date based on our performance against certain targets. Performance units have a vesting schedule of three years. The fair value of each performance unit is the market price of our common stock on the date of grant. The compensation expense for such awards is recognized on a straight line basis over the vesting term. Over the performance period the number of shares expected to be issued is adjusted upward or downward based on the probability of achievement of the performance target.

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Company-Sponsored 401(k) Retirement Plans

Under our 401(k) retirement plan for corporate employees (the “Corporate Plan”), we matched 50% of eligible corporate employees’ contributions, up to 6% of the employees’ eligible compensation in 2015, 2014 and 2013. Under our separate 401(k) retirement plan for worksite employees (the “Worksite Employee Plan”), the match percentage for worksite employees ranges from 0% to 6%, as determined by each client company. Matching contributions under the Corporate Plan and the Worksite Employee Plan are immediately vested. During 2015, 2014 and 2013, we made matching contributions to the Corporate and Worksite Employee Plans of $98.7 million, $81.5 million and $74.7 million, respectively. Of these contributions, $95.3 million, $78.4 million and $71.7 million were made under the Worksite Employee Plan on behalf of worksite employees. The remainder represents matching contributions made under the Corporate Plan on behalf of corporate employees.

Advertising

We expense all advertising costs as incurred.

Income Taxes

We use the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and income tax carrying amounts of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2015 presentation.

New Accounting Pronouncements

We believe that we have implemented the accounting pronouncements with a material impact on our financial statements.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards (“FASB”) Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 outlines a single comprehensive revenue recognition model for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under ASU No. 2014-09, an entity recognizes revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for annual reporting periods ending after December 15, 2017, and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU No. 2014-09. We are currently evaluating the guidance and have not determined the impact this standard may have on our Consolidated Financial Statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires companies to present deferred income tax assets and deferred income tax liabilities, along with any valuation allowance, as noncurrent in a classified balance sheet instead of the current requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted either prospectively or retrospectively. In December 2015, we adopted ASU No. 2015-17 retrospectively, resulting in a reclassification of a $6.3 million deferred tax asset from current to long term in 2014.

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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, 2015	2014
	(in thousands)	
Overnight holdings:		
Money market funds (cash equivalents)	$247,720	$271,840
Investment holdings:		
Money market funds (cash equivalents)	26,048	14,125
Marketable securities	9,875	28,631
	283,643	314,596
Cash held in demand accounts	19,377	20,369
Outstanding checks	(23,607)	(29,878)
Total cash, cash equivalents and marketable securities	$279,413	$305,087
Cash and cash equivalents	$269,538	$276,456
Marketable securities	9,875	28,631
	$279,413	$305,087

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, 2015 and December 31, 2014, are $185.7 million and $152.1 million, respectively, in withholdings associated with federal and state income taxes, employment taxes and other payroll deductions, as well as $17.0 million and $87.9 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, 2015	Level 1	Level 2	Level 3
Money market funds	$273,768	$273,768	$—	$—
Municipal bonds	9,875	—	9,875	—
Total	$283,643	$273,768	$9,875	$—

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

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

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

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Estimated Fair Value
December 31, 2015				
Municipal bonds	$9,875	$3	$(3)	$9,875
December 31, 2014				
Municipal bonds	$28,626	$16	$(11)	$28,631

As of December 31, 2015, the contractual maturities of our marketable securities were as follows:

	Amortized Cost (in thousands)	Estimated Fair Value
Less than one year	$7,341	$7,341
One to five years	2,534	2,534
Total	$9,875	$9,875

3. Accounts Receivable

Our accounts receivable is primarily composed of trade receivables and unbilled receivables. Our trade receivables, which represent outstanding gross billings to clients, are reported net of allowance for doubtful accounts of $1.1 million and $1.2 million as of December 31, 2015 and 2014, 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. Client 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:

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	December 31, 2015	2014
	(in thousands)	
Accrued worksite employee payroll cost	$161,917	$192,396
Unbilled revenues	45,835	55,645
Customer prepayments	(17,037)	(87,887)
Unbilled accounts receivable	$190,715	$160,154

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, 2015, 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, 2015, we had $136.5 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

We perform our annual asset impairment test as of December 31, the end of our calendar year. During the fourth quarters of 2015, 2014 and 2013, we performed step one of the annual impairment test for each of our reporting units. We concluded that the estimated fair value of our Expense Management unit in 2013 was below its respective carrying value.

Additionally, any time impairment indicators are identified, we perform an interim impairment test. During the second quarter of 2014, impairment indicators were identified in our Employment Screening business, due to changes in management, the reporting unit’s financial results and the loss of certain customers.

The declines in the estimated fair values of Employment Screening and Expense Management resulted primarily from lower projected revenue growth rates and profitability levels. Upon completion of step two of the goodwill impairment tests, we recognized goodwill and other intangible asset impairments of $2.5 million in 2014 related to our Employment Screening business unit and $3.3 million in 2013 related to our Expense Management reporting unit. The fair values of the reporting units were estimated using a discounted cash flow model. 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.

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

	December 31, 2014	Twelve Months Ended December 31, 2015		December 31, 2015
	Balance	Impairment	Amortization Expense	Balance
	(in thousands)			
Gross carrying amount:				
Trademarks	$220	$—	$—	$220
Customer relationships	6,392	—	—	6,392
Aggregate goodwill acquired:				
Goodwill	21,156		—	21,156
Total	$27,768	$—	$—	$27,768
Accumulated amortization:				
Trademarks	$(62)	$—	$(39)	$(101)
Customer relationships	(4,779)	—	(830)	(5,609)
Accumulated impairment:				
Goodwill	(8,470)	—	—	(8,470)
Total	$(13,311)	$—	$(869)	$(14,180)
Net carrying amount:				
Trademarks	$158	$—	$(39)	$119
Customer relationships	1,613	—	(830)	783
Goodwill	12,686	—	—	12,686
Total goodwill and other intangible assets	$14,457	$—	$(869)	$13,588

Our amortization expense related to purchased intangible assets other than goodwill was $0.9 million in 2015, $1.5 million in 2014 and $2.0 million in 2013, and is estimated to be $0.5 million in 2016, $0.3 million in 2017, $36,000 in 2018, $12,000 in 2019 and $7,000 in 2020.

6. Other Asset Impairments

In the first quarter of 2015, we entered into a plan to sell our two aircraft, and as a result, we recorded impairment and other charges of $9.8 million, representing the difference between the carrying value and the estimated fair value of the assets as well as a provision for potential settlement of a Texas sales and use tax assessment. In July 2015, we received proceeds, net of selling costs, of $12.2 million for both aircraft and recorded an additional $1.3 million impairment charge in the second quarter of 2015. In the fourth quarter of 2015, we reduced our use tax accrual by $0.6 million due to a pending $0.2 million settlement of the Texas sales and use tax assessment. These net charges of $10.5 million are included in impairment charges and other on our Consolidated Statement of Operations.

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 in 2013, which is included in other income (expense) in our Consolidated Statements of Operations. Due to federal income tax limitations on capital losses, no tax benefit associated with the impairment was recognized.

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7. Revolving Credit Facility

We have a $125 million revolving credit facility (the “Facility”), which may be increased to $150 million based on the terms and subject to the conditions set forth in the agreement relating to the Facility (the “Credit Agreement”). The Facility 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, 2015, we had not drawn on the Facility. As of December 31, 2015, we had an outstanding $0.6 million letter of credit issued under the Facility.

The Facility matures on February 6, 2020. 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 that 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 2014 and 2012, the Credit Agreement was amended to modify the interest coverage ratio covenant to exclude the impact of special dividends paid of $50.7 million and $25.7 million, respectively. We were in compliance with all financial covenants under the Credit Agreement at December 31, 2015.

In January 2016, we borrowed $104.4 million under the Facility to fund a portion of the purchase price of our modified Dutch auction tender offer. Please read Note 15, “Subsequent Events,” for additional information.

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8. Income Taxes

Deferred 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 components of the net deferred tax assets and net deferred tax liabilities as reflected on the Consolidated Balance Sheets are as follows:

	December 31,	
	2015	2014
	(in thousands)	
Deferred tax liabilities:		
Prepaid assets	$(3,952)	$(9,291)
Depreciation	(1,741)	(8,083)
Software development costs	(2,699)	(2,252)
Total deferred tax liabilities	(8,392)	(19,626)
Deferred tax assets:		
Accrued incentive compensation	8,818	7,204
Net operating loss carryforward	1,463	1,556
Workers' compensation accruals	7,586	6,308
Accrued rent	1,229	1,058
Stock-based compensation	4,553	3,615
Intangibles	1,159	1,575
Minority investment impairment	1,016	1,003
Other	564	551
Total deferred tax assets	26,388	22,870
Valuation allowance	(1,020)	(1,003)
Total net deferred tax assets	25,368	21,867
Net deferred tax assets	$16,976	$2,241

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires companies to present deferred income tax assets and deferred income tax liabilities as noncurrent in a classified balance sheet instead of the current requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted either prospectively or retrospectively. In December 2015 we adopted ASU No. 2015-17 retrospectively, resulting in a reclassification of a $6.3 million deferred tax asset from current to long term in 2014.

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The components of income tax expense are as follows:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Current income tax expense:			
Federal	$35,221	$18,034	$20,476
State	5,741	3,322	3,512
Total current income tax expense	40,962	21,356	23,988
Deferred income tax (benefit) expense:			
Federal	(13,632)	(1,764)	(2,258)
State	(1,101)	31	(30)
Total deferred income tax benefit	(14,733)	(1,733)	(2,288)
Total income tax expense	$26,229	$19,623	$21,700

As a result of nonqualified stock option exercises, disqualifying dispositions of certain employee incentive stock options and vesting of restricted stock awards, we had a net income tax benefit of $2.2 million in 2015, $0.5 million in 2014 and $1.3 million in 2013. The excess income tax benefit is reported as a component of additional paid-in capital.

The reconciliation of income tax expense computed at U.S. federal statutory tax rates to the reported income tax expense from continuing operations is as follows:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Expected income tax expense at 35%	$22,967	$16,670	$18,806
State income taxes, net of federal benefit	2,696	2,204	2,286
Nondeductible expenses	1,669	1,939	1,993
Section 199 benefits	(627)	(592)	(2,531)
Expense Management non-cash impairment	—	—	797
Valuation allowance related to TRE impairment	—	—	938
Research and development credit	(530)	(455)	(534)
Other, net	54	(143)	(55)
Reported total income tax expense	$26,229	$19,623	$21,700

We have developed customer facing software that is included as a component of the PEO HR Outsourcing solutions. In addition, we market both software products and cloud based offerings. Prior to 2013, we were not certain that these software offerings met the IRS “Qualified Production Activities Deduction” requirements. As a result, no such tax deduction was taken on the annual tax returns filed with the IRS. However, in 2013, we engaged tax specialists to conduct a study of our various software offerings to assess the qualifications with IRS guidelines. Based on this study, we concluded certain of our software offerings met the IRS requirements, resulting in amendments to previously filed open year tax returns. Accordingly, in 2013 we recognized $2.0 million in tax benefits for the years 2009 to 2012, and $0.5 million in tax benefits for the 2013 tax year.

At December 31, 2015, we have net operating loss carryforwards totaling approximately $3.9 million that expire from 2022 to 2030 related to our acquisition of ExpensAble.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2015, 2014 and 2013, we made no provisions for interest or penalties related to uncertain tax positions. The tax years

2012 through 2014 remain open to examination by the Internal Revenue Service of the United States. The tax years 2011 through 2014 remain open to examination by various state tax authorities.

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9. Stockholders' Equity

Repurchase Program

Our Board of Directors (the "Board") has authorized a program to repurchase shares of our outstanding common stock ("Repurchase Program"). The purchases are to be made from time to time in the open market or directly from stockholders at prevailing market prices based on market conditions or other factors. During 2014, we repurchased 580,804 shares under the Repurchase Program and 112,458 shares were withheld to satisfy minimum tax withholding obligations for the vesting of restricted stock awards. In 2015, the Board authorized an increase of one million shares that may be repurchased under the Repurchase Program. We repurchased 1,244,433 shares under the Repurchase Program during 2015. In addition, 114,523 shares were withheld during 2015 to satisfy minimum tax withholding obligations for the vesting of restricted stock awards, which are not subject to the Repurchase Program. At December 31, 2015, we were authorized to repurchase an additional 524,332 shares under the Repurchase Program. Shares repurchased under the Repurchase Program and shares withheld to satisfy minimum tax withholding obligations for the vesting of restricted stock awards are recorded in treasury.

Dividends

The Board declared quarterly dividends in 2015 and 2014 as follows:

	2015	2014	
	(amounts per share)		
First quarter	$0.19	$0.17	
Second quarter	0.22	0.19	
Third quarter	0.22	0.19	
Fourth quarter	0.22	2.19	[1]

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[1] Includes a $2.00 per share special dividend

During 2015 and 2014, we paid a total of $21.2 million and $69.5 million, respectively in dividends. The dividends paid in 2014 includes a one-time special dividend of $50.7 million.

Preferred Stock

At December 31, 2015, 20 million shares of preferred stock were authorized, of which 600,000 shares were designated as Series A Junior Participating Preferred Stock that is reserved for issuance on exercise of preferred stock purchase rights under our Share Purchase Rights Plan (the "Rights Plan"). Each issued share of our common stock has one preferred stock purchase right attached to it. No preferred shares have been issued and the rights are not currently exercisable. The Rights Plan expires on November 13, 2017.

10. Incentive Plans

The Insperity, Inc. 2001 Incentive Plan, as amended, and the 2012 Incentive Plan, as amended, (collectively, the "Incentive Plans") provide for options and other stock-based awards that have been and may be granted to eligible employees and non-employee directors of Insperity or its subsidiaries. The 2012 Incentive Plan is currently the only plan under which new stock-based awards may be granted. The Incentive Plans are administered by the Compensation Committee of the Board of Directors (the "Committee"). The Committee has the power to determine which eligible employees will receive awards, the timing and manner of the grant of such awards, the exercise price of stock options (which may not be less than market value on the date of grant), the number of shares and all of the terms of the awards. The Board may at any time amend or terminate the Incentive Plans. However, no amendment that would impair the rights of any participant, with respect to outstanding grants, can be made without the participant's prior consent. Stockholder approval of amendments to the Incentive Plans is necessary only when required by applicable law or stock exchange rules. At December 31, 2015, 997,059 shares of common stock were available for future grants under the 2012 Incentive Plan. The Incentive Plans permit stock options, including nonqualified stock options and options intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code, stock awards, phantom stock awards, stock appreciation rights, performance units, and other stock-based awards and cash awards, all of which may or may not be subject to the achievement of one or more performance

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objectives. The purposes of the Incentive Plans generally are to retain and attract persons of training, experience and ability to serve as employees of Insperity and its subsidiaries and to serve as non-employee directors of Insperity, to encourage the sense of proprietorship of such persons and to stimulate the active interest of such persons in the development and financial success of Insperity and its subsidiaries.

On March 30, 2015, we adopted the Insperity, Inc. Long-Term Incentive Program under the Insperity, Inc. 2012 Incentive Plan. The LTIP provides for performance-based long-term compensation awards in the form of performance units to certain employees based on the achievement of pre-established performance goals. We granted performance units under the LTIP to our named executive officers and certain other officers in 2015.

We recognized $13.3 million, $11.1 million and $11.1 million of compensation expense associated with the restricted stock and the LTIP awards in 2015, 2014 and 2013, respectively. We recognized $5.3 million, $4.6 million and $4.5 million of tax benefits associated with stock-based compensation in 2015, 2014 and 2013, respectively.

Stock Option Awards

The following is a summary of stock option award activity for 2015:

	Shares (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding - December 31, 2014	43	$28.04		
Granted	—	—		
Exercised	(15)	25.14		
Canceled	—	—		
Outstanding - December 31, 2015	28	29.56	4.4	$527
Exercisable - December 31, 2015	28	29.56	4.4	$527

The intrinsic value of options exercised during the year was $0.3 million in 2015, $0.3 million in 2014 and $1.5 million in 2013.

Restricted Stock Awards

Restricted common shares, under equity plan accounting, are generally measured at fair value on the date of grant based on the number of shares granted, estimated forfeitures and the quoted price of the common stock. Such value is recognized as compensation expense over the corresponding vesting period, three to five years for our shares currently outstanding. The total fair value of shares vested during the years ended December 31, 2015, 2014, and 2013 was $18.6 million, $10.8 million and $12.3 million, respectively. The weighted average grant date fair value of restricted stock awards during the years ended December 31, 2015, 2014 and 2013 was $51.54, $28.22 and $29.25, respectively. As of December 31, 2015, unrecognized compensation expense associated with the unvested shares outstanding was $14.4 million and is expected to be recognized over a weighted average period of 23 months.

The following is a summary of restricted stock award activity for 2015:

	Shares (in thousands)	Weighted Average Grant Date Fair Value
Non-vested - December 31, 2014	740	$28.84

Granted	271	51.54
Vested	(368)	29.71
Canceled/Forfeited	(25)	36.68
Non-vested - December 31, 2015	618	37.98

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Long-Term Incentive Program Awards

Each performance unit represents the right to receive one common share at a future date based on our performance against specified targets. Performance units have a vesting schedule of three years. The fair value of each performance unit is the market price of one common share on the date of grant. The compensation expense for such awards is recognized on a straight-line basis over the vesting terms. Over the performance period, the number of shares expected to be issued is adjusted upward or downward based upon the probability of achievement of the performance targets. The ultimate number of shares issued and the related compensation cost recognized is based on a comparison of the final performance metrics to the specified targets. As of December 31, 2015, the unrecognized compensation cost was $6.0 million.

The following is a summary of LTIP award activity for 2015:

	Number of Performance Units at Target	Weighted Average Grant Date Fair Value	Maximum Shares Eligible to Receive
Unvested at December 31, 2014	—	$—	—
Granted	103,450	52.80	201,800
Vested	—	—	—
Canceled	(2,550)	—	—
Unvested at December 31, 2015	100,900	52.80	201,800
Expected to vest	153,146		

The expected payout assumes the issuance of 153,146 shares of common stock.

Employee Stock Purchase Plan

Our employee stock purchase plan (the "ESPP") enables employees to purchase shares of Insperity stock at a 5% discount. The ESPP is a non-compensatory plan under generally accepted accounting principles of stock-based compensation. As a result, no compensation expense is recognized in conjunction with this plan. Approximately 24,000, 37,000 and 34,000 shares were issued from treasury under the ESPP during fiscal years 2015, 2014 and 2013, respectively.

11. 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 includes 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. We declared a special dividend of $2.00 per share in 2014. As a result, dividends exceeded earnings, which resulted in decreased earnings per share of $0.05 per share in 2014. 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:

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	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Net income	$39,390	$28,004	$32,032
Less distributed and undistributed earnings allocated to participating securities	(981)	(2,002)	(916)
Net income allocated to common shares	$38,409	$26,002	$31,116
Weighted average common shares outstanding	24,308	24,708	24,850
Incremental shares from assumed conversions of common stock options	7	4	22
Adjusted weighted average common shares outstanding	24,315	24,712	24,872
Potentially dilutive securities not included in weighted average share calculation due to anti-dilutive effect	—	4	8

12. Leases

We lease various office facilities, 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 $13.6 million, $13.4 million and $13.9 million in 2015, 2014 and 2013, respectively. At December 31, 2015, future minimum rental payments under noncancelable operating leases are as follows:

	Operating Leases (in thousands)
2016	$13,961
2017	11,196
2018	9,423
2019	6,366
2020	4,200
Thereafter	3,312
Total minimum lease payments	$48,458

13. Commitments and Contingencies

We enter into fixed purchase and service obligations in the ordinary course of business. These arrangements primarily consist of, construction contract for the new facility, advertising commitments and service contracts. At December 31, 2015, future purchase and service obligations greater than $100,000 and one year were as follows (in thousands):

2016	$20,554	(1)
2017	6,245	
2018	4,695	
2019	1,774	
2020	1,493	
Thereafter	1,200	
Total obligations	$35,961	

(1) Includes $13 million related to the construction of a new facility on our corporate campus.

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Worksite Employee 401(k) Retirement Plan Class Action Litigation

In December 2015, a class action lawsuit was filed against us and the Company's third party discretionary trustee of the Worksite Employee Plan (the "Plan") in the United States District Court for the Northern District of Georgia, Atlanta Division on behalf of participants in the Plan, which is the Insperity 401(k) retirement plan covering worksite employees. This suit generally alleges that the Company's third party discretionary trustee of the Plan and Insperity breached their fiduciary duties to plan participants by selecting an Insperity subsidiary to serve as the recordkeeper for the Plan, by causing participants in the Plan to pay excessive recordkeeping fees to the Insperity subsidiary and by making imprudent investment choices. We believe the Company has meritorious defenses and we intend to vigorously defend this litigation. As a result of uncertainty regarding the outcome of this matter, no provision has been made in the accompanying consolidated financial statements.

Other Litigation

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.

14. Quarterly Financial Data (Unaudited)

	Quarter ended March 31		June 30		Sept. 30	Dec. 31	
	(in thousands, except per share amounts)						
2015							
Revenues	$699,479		$627,838		$626,286	$650,011	
Gross profit	129,860		104,219		106,743	97,045	
Operating income	23,520	(1)	12,217	(2)	19,936	10,026	(3)
Net income	13,787		7,314		11,950	6,339	
Basic net income per share	0.54		0.29		0.48	0.26	
Diluted net income per share	0.54		0.29		0.48	0.26	
2014							
Revenues	$636,999		$564,621		$560,303	$595,865	
Gross profit	106,176		95,453		100,817	101,359	
Operating income	16,591		3,414	(4)	14,460	13,009	(5)
Net income	9,564		1,891		8,385	8,164	
Basic net income per share	0.37		0.07		0.33	0.27	(6)
Diluted net income per share	0.37		0.07		0.33	0.27	(6)

(1) Includes non-cash impairment and other charges in the first quarter of 2015 of $9.8 million. Please read Note 6, "Other Asset Impairments," for additional information.

(2) Includes non-cash impairment and other charges in the second quarter of 2015 of $1.3 million. Please read Note 6, "Other Asset Impairments," for additional information.

(3) Includes a reduction to non-cash impairment and other charges in the fourth quarter of 2015 of $0.6 million. Please read Note 6, "Other Asset Impairments," for additional information.

(4)

Includes a non-cash impairment charge in the first quarter of 2014 of $2.5 million. Please read Note 5, "Goodwill and Other Intangible Assets," for additional information.

(5) Includes a $1.2 million non-cash charge in the fourth quarter of 2014. Please read Note 1, "Accounting Policies," for additional information.

(6) Includes the impact of dividends exceeding earnings under the two-class method, resulting in a $0.05 earnings per share decrease in the fourth quarter of 2014. Please read Note 11, "Net Income Per Share," for additional information.

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15. Subsequent Events

In December 2015, we commenced a modified Dutch auction tender offer to purchase up to $125 million in value of our common stock at a price not less than $43.50 per share and not more than $50.00 per share. In January 2016, we exercised our right to increase the size of the tender offer by up to 2.0% of our outstanding common stock. The tender offer period expired on January 7, 2016 and on January 13, 2016, we purchased 3,013,531 shares of our common stock at a per share price of $47.50 and an aggregate price of $143.1 million, excluding $1.1 million of transaction costs. The shares were immediately canceled and retired.

The tender offer was funded through borrowings of $104.4 million under the Facility and the remainder with cash on hand.