DONALDSON CO INC
Form 10-Q
June 06, 2014

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

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2014 OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________________ TO _________________.**

Commission File Number **1-7891**

DONALDSON COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**41-0222640**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 West 94th Street
Minneapolis, Minnesota 55431
(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code: **(952) 887-3131**

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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. x Yes o No

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock, $5 Par Value 142,955,040 shares as of April 30, 2014.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Thousands of dollars, except share and per share amounts)
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	**2013**	**2014**	**2013**
Net sales	$ 624,234	$ 619,371	$ 1,805,240	$ 1,804,354
Cost of sales	400,773	397,870	1,165,737	1,185,583
Gross profit	223,461	221,501	639,503	618,771
Operating expenses	130,727	122,914	382,914	375,455
Operating income	92,734	98,587	256,589	243,316
Interest expense	2,374	2,719	6,987	8,275
Other income, net	(3,822)	(3,608)	(10,249)	(11,962)
Earnings before income taxes	94,182	99,476	259,851	247,003
Income taxes	26,846	29,634	72,583	72,235
Net earnings	$ 67,336	$ 69,842	$ 187,268	$ 174,768
Weighted average shares - basic	145,310,710	148,136,620	146,543,727	148,404,503
Weighted average shares - diluted	147,339,425	150,234,445	148,608,748	150,591,003
Net earnings per share - basic	$ 0.46	$ 0.47	$ 1.28	$ 1.18
Net earnings per share - diluted	$ 0.46	$ 0.46	$ 1.26	$ 1.16
Dividends paid per share	$ 0.14	$ 0.10	$ 0.41	$ 0.28

See Notes to Condensed Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of dollars)
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	**2013**	**2014**	**2013**
Net earnings	$ 67,336	$ 69,842	$ 187,268	$ 174,768
Foreign currency translation gain (loss)	21,291	(13,563)	16,183	29,401
Net gain on hedging derivatives, net of deferred taxes of ($72), ($72), ($33) and ($269), respectively	117	13	53	144
Pension and postretirement liability adjustment, net of deferred taxes of $4,691, $7,682, $9,063 and $14,963, respectively	8,607	16,214	15,877	31,417
Total comprehensive income	$ 97,351	$ 72,506	$ 219,381	$ 235,730

See Notes to Condensed Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except share amounts)
(Unaudited)

	April 30, 2014	July 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 238,222	$ 224,138
Short-term investments	152,544	99,750
Accounts receivable, less allowance of $7,100 and $7,040	453,151	430,766
Inventories	254,213	234,820
Prepaids and other current assets	69,465	66,188
Total current assets	$ 1,167,595	$ 1,055,662
Property, plant, and equipment, at cost	1,091,111	1,025,013
Less accumulated depreciation	(650,114)	(605,733)
Property, plant, and equipment, net	440,997	419,280
Goodwill	168,144	165,568
Intangible assets, net	37,508	41,307
Other assets and deferred taxes	83,757	61,739
Total assets	$ 1,898,001	$ 1,743,556
Liabilities and shareholders equity		
Current liabilities		
Short-term borrowings	$ 65,557	$ 9,190
Current maturities of long-term debt	17,729	98,664
Trade accounts payable	192,631	186,460
Other current liabilities	183,155	182,121
Total current liabilities	459,072	476,435
Long-term debt	227,751	102,774
Deferred income taxes	31,876	23,604
Other long-term liabilities	53,139	55,556
Total liabilities	771,838	658,369
Shareholders equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized, none issued		
Common stock, $5.00 par value, 240,000,000 shares authorized, 151,643,194 shares issued	758,216	758,216
Retained earnings	675,386	532,307
Stock compensation plans	19,194	21,745
Accumulated other comprehensive loss	(5,360)	(37,473)
Treasury stock at cost, 6,468,944 and 5,490,725 shares	(321,273)	(189,608)
Total shareholders equity	1,126,163	1,085,187
Total liabilities and shareholders equity	$ 1,898,001	$ 1,743,556

See Notes to Condensed Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of dollars)
(Unaudited)

	Nine Months Ended April 30, 2014	Nine Months Ended April 30, 2013
Operating Activities		
Net earnings	$ 187,268	$ 174,768
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	50,245	48,527
Changes in operating assets and liabilities	(5,764)	(8,346)
Tax benefit of equity plans	(8,119)	(9,483)
Stock compensation plan expense	9,474	7,363
Deferred taxes	(7,649)	(4,037)
Loss on sale of business	905	
Other, net	3,746	8,597
Net cash provided by operating activities	230,106	217,389
Investing Activities		
Net expenditures on property, plant, and equipment	(66,046)	(69,425)
Purchases of short-term investments	(108,864)	(66,584)
Proceeds from sale of short-term investments	61,179	97,365
Net cash used in investing activities	(113,731)	(38,644)
Financing Activities		
Purchase of treasury stock	(165,871)	(60,975)
Proceeds from long-term debt	125,000	
Repayments of long-term debt	(81,586)	(1,093)
Change in short-term borrowings	54,693	(66,530)
Dividends paid	(59,675)	(41,184)
Tax benefit of equity plans	8,119	9,483
Exercise of stock options	13,035	12,131
Net cash used in financing activities	(106,285)	(148,168)
Effect of exchange rate changes on cash	3,994	7,622
Increase in cash and cash equivalents	14,084	38,199
Cash and cash equivalents, beginning of year	224,138	225,789
Cash and cash equivalents, end of period	$ 238,222	$ 263,988

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Donaldson Company, Inc. and its subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S.) (U.S. GAAP) and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three and nine month periods ended April 30, 2014 are not necessarily indicative of the results that may be expected for future periods. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended July 31, 2013.

Note B Inventories

The components of inventory as of April 30, 2014 and July 31, 2013 are as follows (thousands of dollars):

	April 30, 2014	July 31, 2013
Raw materials	$ 110,115	$ 99,814
Work in process	24,930	29,097
Finished products	119,168	105,909
Total inventories	$ 254,213	$ 234,820

Note C Accounting for Stock-Based Compensation

Stock-based compensation expense is recognized using the fair-value method for all awards. In addition to granting stock options, the Company also granted reload options during the nine months ended April 30, 2014. A reload stock option is granted for the number of shares tendered as payment for the exercise price and tax withholding obligation upon the exercise of a stock option with a reload provision. The option price of the reload option is equal to the market price of the stock on the date of exercise of the original option and will expire on the same date as the original option which was exercised. The Company determined the fair value of its option awards using the Black-Scholes option pricing model. The following assumptions were used to value the options, including reload options which generally have a shorter contractual life, granted during the nine months ended April 30, 2014: range of 4 years to 8 years expected life; expected volatility range of 21.0 percent to 28.0 percent; risk-free interest rate range of 1.21 percent to 2.83 percent; and annual dividend yield of 1.4 percent. The expected life for options granted during the period represents the period of time that the options are expected to be outstanding based on the contractual life and historical data of option holder exercise and termination behavior. Expected volatilities are based upon historical volatility of the Company s stock over a period at least equal to the expected life of each option grant. Option grants have exercise prices equal to the fair market value of the Company s stock on the date of grant. The weighted average fair value of options granted during the nine months ended April 30, 2014 and 2013 was $11.51 per share and $8.37 per share, respectively. For the three and nine months ended April 30, 2014, the Company recorded pre-tax stock-based compensation expense associated with stock options of $2.2 million and $8.3 million, respectively, and recorded $0.7 million and $2.7 million, respectively of related tax benefit. For the three and nine months ended April 30, 2013, the Company recorded pre-tax stock-based compensation expense associated with stock options of $1.4 million and $6.9 million, respectively, and recorded $0.4 million and $2.2 million, respectively, of related tax benefit.

The following table summarizes stock option activity during the nine months ended April 30, 2014:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at July 31, 2013	7,329,820	$ 23.88
Granted	891,737	42.18
Exercised	(930,225)	18.63
Canceled	(14,914)	35.59
Outstanding at April 30, 2014	7,276,418	26.76

The total intrinsic value of options exercised during the nine months ended April 30, 2014 and 2013 was $19.8 million and $27.5 million, respectively.

The following table summarizes information concerning outstanding and exercisable options as of April 30, 2014:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.00 to $16.69	1,050,081	1.41	$ 15.92	1,050,081	$ 15.92
$16.70 to $22.69	2,207,951	4.37	19.13	2,207,951	19.13
$22.70 to $28.69	405,114	3.67	23.01	405,114	23.01
$28.70 to $34.69	1,854,574	7.50	31.58	1,266,367	30.59
$34.70 and above	1,758,698	8.38	38.62	621,343	35.43
	7,276,418	5.67	26.76	5,550,856	23.25

At April 30, 2014, the aggregate intrinsic value of options outstanding and exercisable was $111.7 million and $104.6 million, respectively.

As of April 30, 2014, there was $9.3 million of total unrecognized compensation expense related to non-vested stock options granted under the 2010 Master Stock Incentive Plan. This unvested expense is expected to be recognized during the remainder of Fiscal Years 2014, 2015, 2016, and 2017.

Note D Net Earnings Per Share

The Company s basic net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares. The Company s diluted net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares and common share equivalents relating to stock options and stock incentive plans. Certain outstanding options were excluded from the diluted net earnings per share calculations because their exercise prices were greater than the average market price of the Company s common stock during those periods. For the three and nine months ended April 30, 2014, there were 855,242 and 877,802 options excluded from the diluted net earnings per share calculation. For the three and nine months ended April 30, 2013, there were 29,800 and 80,486 options excluded from the diluted net earnings per share calculation.

The following table presents information necessary to calculate basic and diluted net earnings per common share (thousands, except per share amounts):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	2013	2014	2013
Weighted average shares - basic	145,311	148,137	146,544	148,405
Common share equivalents	2,028	2,097	2,065	2,186
Weighted average shares - diluted	147,339	150,234	148,609	150,591
Net earnings for basic and diluted earnings per share computation	$ 67,336	$ 69,842	$ 187,268	$ 174,768
Net earnings per share - basic	$ 0.46	$ 0.47	$ 1.28	$ 1.18
Net earnings per share - diluted	$ 0.46	$ 0.46	$ 1.26	$ 1.16

Note E Shareholders Equity

The Company s Board of Directors authorized the repurchase of 15.0 million shares of common stock on September 25, 2013. During the three months ended April 30, 2014, the Company repurchased 2,400,000 shares for $99.5 million at an average price of $41.48 per share. During the nine months ended April 30, 2014, the Company repurchased 4,039,000 shares for $165.9 million at an average price of $41.07 per share. As of April 30, 2014, the Company had remaining authorization to repurchase up to 11.3 million shares.

On May 21, 2014, the Company s Board of Directors declared a cash dividend in the amount of $0.165 per common share, payable to stockholders of record on June 6, 2014. The dividend will be paid on June 20, 2014.

Note F Accumulated Other Comprehensive Loss

In the first quarter of Fiscal 2014, the Company prospectively adopted guidance issued by the Financial Accounting Standards Board (FASB) that requires additional disclosure related to the impact of reclassification adjustments out of accumulated other comprehensive income or loss on net income. Changes in accumulated other comprehensive loss by component are as follows:

(Thousands of dollars)	Foreign currency translation adjustment (a)	Pension benefits	Derivative financial instruments	Total
Three Months Ended April 30, 2014:				
Balance as of January 31, 2014, net of tax	$ 45,303	$ (80,442)	$ (236)	$ (35,375)
Other comprehensive (loss) income before reclassifications and tax	21,291	11,314	275	$ 32,880
Tax benefit (expense)		(3,967)	(96)	$ (4,063)
Other comprehensive (loss) income before reclassifications, net of tax	$ 21,291	$ 7,347	$ 179	$ 28,817
Reclassifications, before tax		1,985	(86)	$ 1,899
Tax benefit (expense)		(725)	24	$ (701)
Reclassifications, net of tax		1,260(b)	(62)	1,198
Other comprehensive (loss) income, net of tax	21,291	8,607	117(c)	$ 30,015
Balance at April 30, 2014, net of tax	$ 66,594	$ (71,835)	$ (119)	$ (5,360)
Nine Months Ended April 30, 2014:				
Balance as of July 31, 2013, net of tax	$ 50,411	$ (87,712)	$ (172)	$ (37,473)
Other comprehensive (loss) income before reclassifications and tax	15,356	18,436	336	$ 34,128
Tax benefit (expense)		(6,725)	(117)	$ (6,842)
Other comprehensive (loss) income before reclassifications, net of tax	$ 15,356	$ 11,711	$ 219	$ 27,286
Reclassifications, before tax	827	6,505	(250)	$ 7,082
Tax benefit (expense)		(2,339)	84	$ (2,255)
Reclassifications, net of tax	827	4,166(b)	(166)	4,827
Other comprehensive (loss) income, net of tax	16,183	15,877	53(c)	$ 32,113
Balance at April 30, 2014, net of tax	$ 66,594	$ (71,835)	$ (119)	$ (5,360)

(a) Taxes are not provided on cumulative translation adjustments as substantially all translation adjustments relate to earnings that are intended to be indefinitely reinvested outside the U.S. Amounts were reclassified from accumulated other comprehensive loss to other income, net.

(b) Primarily includes net amortization of prior service costs and actuarial losses included in net periodic benefit cost (see Note K) that were reclassified from accumulated other comprehensive loss to operating expenses or cost of sales.

(c) Relates to foreign currency cash flow hedges that were reclassified from accumulated other comprehensive loss to other income, net (see Note L).

Note G Segment Reporting

The Company has two reportable segments, Engine Products and Industrial Products. Corporate and Unallocated includes corporate expenses determined to be non-allocable to the segments such as interest income and interest expense. The Company is an integrated enterprise, characterized by substantial intersegment cooperation, cost allocations, and sharing of assets. Therefore, the Company does not represent that these segments, if operated independently, would report the operating profit and other financial information shown below. Segment detail is summarized as follows (thousands of dollars):

	Engine Products	Industrial Products	Corporate & Unallocated	Total Company
Three Months Ended April 30, 2014:				
Net sales	$ 402,157	$ 222,077	$	$ 624,234
Earnings before income taxes	61,432	32,507	243	94,182
Three Months Ended April 30, 2013:				
Net sales	$ 383,314	$ 236,057	$	$ 619,371
Earnings before income taxes	65,680	37,555	(3,759)	99,476
Nine Months Ended April 30, 2014:				
Net sales	$ 1,160,948	$ 644,292	$	$ 1,805,240
Earnings before income taxes	170,799	91,682	(2,630)	259,851
Assets	890,639	552,533	454,829	1,898,001
Nine Months Ended April 30, 2013:				
Net sales	$ 1,107,814	$ 696,540	$	$ 1,804,354
Earnings before income taxes	152,129	102,709	(7,835)	247,003
Assets	815,604	539,151	402,853	1,757,608

There were no Customers that accounted for over 10 percent of net sales for the three or nine months ended April 30, 2014 or 2013. There were no Customers that accounted for over 10 percent of gross accounts receivable as of April 30, 2014 or 2013.

Note H Goodwill and Other Intangible Assets

Goodwill is assessed for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. The Company performed an impairment assessment during the third quarter of Fiscal 2014. The impairment assessment in the third quarter indicated that the estimated fair values of the reporting units to which goodwill is assigned continued to significantly exceed the corresponding carrying values of the respective reporting units, including recorded goodwill and, as such, no impairment existed. Following is a reconciliation of goodwill for the nine months ended April 30, 2014 (thousands of dollars):

	Engine Products	Industrial Products	Total Goodwill
Balance as of July 31, 2013	$ 72,321	$ 93,247	$ 165,568
Foreign exchange translation	331	2,245	$ 2,576
Balance as of April 30, 2014	$ 72,652	$ 95,492	$ 168,144

As of April 30, 2014, intangible assets were $37.5 million, a $3.8 million decrease from $41.3 million at July 31, 2013. The decrease in other intangible assets is primarily due to amortization of existing assets of $3.9 million, partially offset by foreign currency translation. There were no intangible asset additions during the nine months ended April 30, 2014. Expected amortization expense relating to existing intangible assets is as follows (in thousands):

Fiscal Year		
Remaining 2014	$	1,291
2015	$	5,086
2016	$	5,084
2017	$	4,963
2018	$	3,481
2019	$	2,930
Thereafter	$	14,606

Note I Guarantees

The Company and Caterpillar Inc. equally own the shares of Advanced Filtration Systems Inc. (AFSI), an unconsolidated joint venture, and guarantee certain debt of the joint venture. As of April 30, 2014, AFSI had $29.0 million of outstanding debt, of which the Company guarantees half. The Company had $0.9 million and $0.7 million of income, respectively, from this equity method investment during the three months ended April 30, 2014 and 2013. The Company recorded $2.2 million and $1.4 million of earnings from this equity method investment for the nine months ended April 30, 2014 and 2013, respectively. During the three and nine months ended April 30, 2014 and 2013, the Company also recorded royalty income of $1.7 million and $5.0 million, respectively, and $1.4 million and $4.4 million, respectively, related to AFSI.

As of April 30, 2014, the Company had a contingent liability for standby letters of credit totaling $7.8 million that have been issued and are outstanding. The letters of credit guarantee payment to third parties in the event the Company is in breach of insurance contract terms as detailed in each letter of credit. At April 30, 2014, there were no amounts drawn upon these letters of credit.

Note J Warranty

The Company estimates warranty expense using quantitative measures based on historical warranty claim experience and evaluation of specific Customer warranty issues. Following is a reconciliation of warranty reserves for the nine months ended April 30, 2014 and 2013 (thousands of dollars):

	April 30,			
	2014		2013	
Beginning balance	$	10,526	$	10,905
Accruals for warranties issued during the reporting period		2,274		5,479
Accruals related to pre-existing warranties (including changes in estimates)		(452)		(105)
Less settlements made during the period		(3,270)		(3,538)
Ending balance	$	9,078	$	12,741

There were no significant specific warranty matters accrued for in the periods ended April 30, 2014 or 2013. The Company s warranty matters are not expected to have a material impact on its results of operations, liquidity, or financial position.

Note K Employee Benefit Plans

The Company and certain of its international subsidiaries have defined benefit pension plans for many of their hourly and salaried employees. There are two types of U.S. plans. The first type of U.S. plan is a traditional defined benefit pension plan primarily for production employees. The second is a plan for salaried workers that provides defined benefits pursuant to a cash balance feature whereby a participant accumulates a benefit comprised of a percentage of current salary that varies with years of service, interest credits, and transition credits. The international plans generally provide pension benefits based on years of service and compensation level.

Net periodic pension costs for the Company s pension plans include the following components:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	2013	2014	2013
	(thousands of dollars)			
Net periodic cost:				
Service cost	$ 4,719	$ 4,866	$ 14,104	$ 14,607
Interest cost	4,885	4,222	14,602	12,733
Expected return on assets	(7,691)	(7,008)	(22,970)	(21,100)
Prior service cost and transition amortization	147	162	443	482
Actuarial loss amortization	1,853	2,563	5,551	7,712
Net periodic benefit cost	$ 3,913	$ 4,805	$ 11,730	$ 14,434

The Company s general funding policy for its pension plans is to make at least the minimum contributions as required by applicable regulations. Additionally, the Company may elect to make additional contributions up to the maximum tax deductible contribution. For the nine months ended April 30, 2014, the Company made contributions of $2.7 million to its non-U.S. pension plans and $0.5 million to its U.S. pension plans. The minimum funding requirement for the Company s U.S. plans for Fiscal 2014 is $12.1 million. Per the Pension Protection Act of 2006, this obligation can be met with existing credit balances that resulted from payments above the minimum obligation in prior years. The Company plans to utilize existing credit balances to meet the minimum obligation. The Company currently estimates that it will contribute an additional $2.9 million to its non-U.S. pension plans during the remainder of Fiscal 2014.

In July 2013, the Company adopted a sunset freeze on its U.S. salaried pension plan. Effective August 1, 2013, the plan was frozen to any Employees hired on or after August 1, 2013. Effective August 1, 2016, Employees hired prior to August 1, 2013, will no longer continue to accrue Company contribution credits under the plan. In July 2013, the Company also announced that Employees hired on or after August 1, 2013, are eligible for a 3.0 percent annual Company retirement contribution in addition to the Company s 401(k) match. Effective August 1, 2016, Employees hired prior to August 1, 2013, will be eligible for the 3.0 percent annual Company retirement contribution.

Note L Fair Values

At April 30, 2014 and July 31, 2013, the Company s financial instruments included cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings, long-term debt, and derivative contracts. The fair values of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings approximated carrying values because of the short-term nature of these instruments, and are classified as Level 1 in the fair value hierarchy. As of April 30, 2014, the estimated fair value of long-term debt with fixed interest rates was $237.1 million compared to the carrying value of $225.0 million and the estimated fair value of short-term debt with fixed interest rates was $16.1 million compared to the carrying value of $16.1 million. The fair value is estimated by discounting projected cash flows using the rate that similar amounts of debt could currently be borrowed, which is classified as Level 2 in the fair value hierarchy.

Derivative contracts are reported at their fair values based on third-party quotes. The fair values of the Company s financial assets and financial liabilities listed below reflect the amounts that would be received to sell the assets or paid to transfer the liabilities in an orderly transaction between market participants at the measurement date (exit price). The fair values are based on inputs other than quoted prices that are observable for the asset or liability. These inputs include foreign currency exchange rates and interest rates. The financial assets and financial liabilities are primarily valued using standard calculations and models that use as their basis readily observable market parameters. Industry standard data providers are the primary source for forward and spot rate information for both interest rates and currency rates.

The following summarizes the Company s fair value of outstanding derivatives at April 30, 2014 and July 31, 2013 on the balance sheets (thousands of dollars):

	Significant Other Observable Inputs (Level 2)*	
	April 30, 2014	July 31, 2013
Asset derivatives recorded under the caption Prepaids and other current assets		
Foreign exchange contracts	$ 353	$ 734
Liability derivatives recorded under the caption Other current liabilities		
Foreign exchange contracts	$ (860)	$ (845)
Forward exchange contracts - net liability position	$ (507)	$ (111)

* Inputs to the valuation methodology of Level 2 assets include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The Company holds equity method investments which are classified in other assets in the condensed consolidated balance sheets. The aggregate carrying amount of these investments was $20.1 million as of April 30, 2014, and $18.8 million as of July 31, 2013. These equity method investments are measured at fair value on a nonrecurring basis. The fair value of the Company s equity method investments has not been estimated as there have been no identified events or changes in circumstance that would have had an adverse impact on the value of these investments. In the event that these investments were required to be measured, these investments would fall within Level 3 of the fair value hierarchy, due to the use of significant unobservable inputs to determine fair value, as the investments are privately-held entities without quoted market prices.

Goodwill and intangible assets are assessed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company s goodwill and intangible assets are not recorded at fair value as there have been no events or circumstances that would have an adverse impact on the value of these assets. In the event that an impairment was recognized, the fair value would be classified within Level 3 of the fair value hierarchy. Refer to Note H for further discussion of the annual goodwill impairment analysis and carrying values of goodwill and other intangible assets.

The Company assesses the impairment of property, plant, and equipment whenever events or changes in circumstances indicate that the carrying amount of property, plant, and equipment assets may not be recoverable. There were no impairment charges recorded during the three or nine months ended April 30, 2014 or 2013.

Note M Commitments and Contingencies

Litigation The Company records provisions with respect to identified claims or lawsuits when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Claims and lawsuits are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter. The Company believes the recorded reserves in its condensed consolidated financial statements are adequate in light of the probable and estimable outcomes. The recorded liabilities were not material to the Company s financial position, results of operations, or liquidity, and the Company does not believe that any of the currently identified claims or litigation will materially affect its financial position, results of operations, or liquidity.

Note N Debt Issuance

On March 27, 2014, the Company issued $125.0 million of senior unsecured notes due March 27, 2024. The debt was issued at face value and bears interest payable semi-annually at an annual rate of interest of 3.72 percent. The proceeds from the notes were used to refinance existing debt and for general corporate purposes. The notes contain debt covenants specifically related to maintaining a certain leverage ratio as well as other covenants that, under certain circumstances, can restrict the Company s ability to incur additional indebtedness, make investments and other restricted payments, create liens, and sell assets. As of April 30, 2014, the Company was in compliance with all such covenants.

Note O Income Taxes

The effective tax rate for the three and nine months ended April 30, 2014, was 28.5 percent and 27.9 percent, respectively. The effective tax rate for the three and nine months ended April 30, 2013, was 29.8 percent and 29.2 percent, respectively. The decrease in our effective tax rate for the three months ended April 30, 2014, was primarily due to changes to the mix of earnings between tax jurisdictions. The decrease in our effective tax rate for the nine months ended April 30, 2014, was primarily due to a tax benefit associated with the favorable settlement of a tax audit. This benefit was partially offset by a tax expense related to an intercompany dividend and non-recurring tax benefits recorded during the prior year nine-month period primarily related to the expiration of some statutes of limitations, the retroactive reinstatement of the Research and Experimentation Credit in the U.S., and the tax impact of foreign dividend distributions.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to state and foreign income tax examinations by tax authorities for years before 2008. The United States Internal Revenue Service has completed examinations of the Company s U.S. federal income tax returns through 2012.

At April 30, 2014, the total unrecognized tax benefits were $13.9 million and accrued interest and penalties on these unrecognized tax benefits were $1.1 million. The Company recognizes accrued interest related to unrecognized tax benefits in income tax expense. If the Company were to prevail on all unrecognized tax benefits recorded, substantially all of the unrecognized tax benefits would benefit the effective tax rate. With an average statute of limitations of about 5 years, up to $0.9 million of the unrecognized tax benefits could potentially expire in the next 12 month period unless extended by an audit. It is possible that quicker than expected settlement of either current or future audits and disputes would cause additional reversals of previously recorded reserves in the next 12 month period. Currently, the Company has approximately $0.2 million of unrecognized tax benefits that are in formal dispute with various taxing authorities related to transfer pricing and deductibility of expenses. Quantification of an estimated range and timing of future audit settlements cannot be made at this time.

Note P New Accounting Standards Recently Adopted

In February 2013, the FASB updated the disclosure requirements for accumulated other comprehensive income (AOCI). The updated guidance requires companies to disclose amounts reclassified out of AOCI by component. The updated guidance does not affect how net income or other comprehensive income are calculated or presented. The updated guidance was effective for the Company beginning in the first quarter of Fiscal 2014. The adoption of this standard did not have a material impact on the Company s consolidated financial statements. For additional information, refer to Note F.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The Company is a worldwide manufacturer of filtration systems and replacement parts. The Company s core strengths are leading filtration technology, strong Customer relationships, and its global presence. Products are manufactured at 39 plants around the world and through three joint ventures.

The Company has two reporting segments: Engine Products and Industrial Products. Products in the Engine Products segment consist of air filtration systems, exhaust and emissions systems, liquid filtration systems including hydraulics, fuel and lube, and replacement filters. The Engine Products segment sells to original equipment manufacturers (OEMs) in the construction, mining, agriculture, aerospace, defense, and truck markets, and to independent distributors, OEM dealer networks, private label accounts, and large equipment fleets. Products in the Industrial Products segment include dust, fume, and mist collectors, compressed air purification systems, air filtration systems for gas turbines, PTFE membrane-based products, and specialized air and gas filtration systems for applications including computer hard disk drives and semi-conductor manufacturing. The Industrial Products segment sells to various industrial dealers, distributors, OEMs of gas-fired turbines, and OEMs and end-users requiring clean air.

The following discussion of the Company s financial condition and results of operations should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto and other financial information included elsewhere in this report.

Overview

The Company reported diluted net earnings per share of $0.46 for the third quarter of Fiscal 2014, consistent with the same period of the prior year. Net earnings for the current quarter were $67.3 million, compared to $69.8 million in the three months ended April 30, 2013. The Company reported sales in the third quarter of Fiscal 2014 of $624.2 million, an increase of 0.8 percent from $619.4 million in the third quarter of the prior year. The impact of foreign currency translation decreased reported sales by $0.6 million, or 0.1 percent, in the quarter.

The Company saw end market conditions remain mixed, as demand for its replacement filters continued to improve in both the Company s Engine and Industrial segments, while conditions for new first-fit systems in the Company s OEM markets recovered more slowly than the Company had anticipated. The Company s Engine Products sales increased 4.9 percent from last year, driven by its Engine Aftermarket, which grew 10.4 percent and On-Road sales, which grew 9.2 percent, compared to the prior year period. The Company s Industrial Products sales decreased 5.9 percent. Gas Turbine sales decreased 38.9 percent as a result of an anticipated slowdown in new project sales, but were partially offset by sales growth in the Company s Industrial Filtration Solutions and Special Applications businesses, which grew 9.5 percent and 2.0 percent, respectively, compared to the prior year period.

The Company s operating margin for the quarter decreased from 15.9 percent in the prior year quarter to 14.9 percent. Positively impacting operating margin were favorable mix impacts from the decline in large Gas Turbine project shipments and higher aftermarket sales. The Company also benefitted from its ongoing Continuous Improvement initiatives, which include Lean, Kaizen, Six Sigma, and cost reduction efforts. More than offsetting these margin improvements were slightly higher expenses from its multi-year implementation of a global enterprise resource planning system project (Global ERP Project) and increased incentive compensation. For additional information, refer to the gross margin and operating expenses discussions below.

Results of Operations

The Company s overall sales increased compared to the third quarter of the prior year. The Company continues to see signs of stabilization in many of its equipment end-markets, while demand for replacement filters is growing. Compared to the prior year, the Company experienced a 38.9 percent decrease in its Gas Turbine sales from last year s third quarter sales of $68.7 million. As we have discussed previously, we had a surge in our gas turbine shipments last year, and the overall industry is now absorbing that new electrical generation capacity, driving the current decrease over the prior year period. The Company s sales decreased in Asia by $7.9 million, or 5.9 percent, offset by sales increases in Europe of $15.9 million, or 9.1 percent, and the Americas of $0.8 million, or 0.3 percent, compared to the third quarter of the prior year.

The impact of foreign currency translation during the third quarter of Fiscal 2014 decreased net sales by $0.6 million, or 0.1 percent, from the prior year third quarter. Although foreign currency translation had a minimal impact at the consolidated level, Europe experienced benefits from foreign currency translation, which was partially offset by negative foreign currency translation impacts in Asia and certain other emerging market economies. The impact of foreign currency translation on the year-to-date results as of the end of the third quarter of Fiscal 2014 decreased net sales by $16.2 million, or 0.9 percent. Worldwide sales for the third quarter of Fiscal 2014, excluding the impact of foreign currency translation, increased 0.9 percent from the third quarter of the prior year and year-to-date over the prior year. The impact of foreign currency translation decreased net earnings by $0.2 million, or 0.3 percent, and by $1.4 million, or 0.8 percent for the three and nine months ended April 30, 2014, respectively.

Although net sales excluding foreign currency translation and net earnings excluding foreign currency translation are not measures of financial performance under U.S. GAAP, the Company believes they are useful in understanding its financial results. Both measures enable the Company to obtain a more clear understanding of the operating results of its foreign entities without the varying effects that changes in foreign currency exchange rates may have on those results. A shortcoming of these financial measures is that they do not reflect the Company s actual results under U.S. GAAP. Management does not intend for these items to be considered in isolation or as a substitute for the related U.S. GAAP measures.

Following is a reconciliation to the most comparable U.S. GAAP financial measure of these non-U.S. GAAP financial measures (millions of dollars):

	Three Month Period		Nine Month Period	
	Net Sales	Percent Change in Net Sales	Net Sales	Percent Change in Net Sales
Period ended April 30, 2012	$ 647.2	NA	$ 1,836.4	NA
Net sales change, excluding foreign currency translation impact	(17.8)	(2.7)%	(3.4)	(0.1)%
Foreign currency translation impact	(10.0)	(1.6)%	(28.6)	(1.6)%
Period ended April 30, 2013	$ 619.4	(4.3)%	$ 1,804.4	(1.7)%
Net sales change, excluding foreign currency translation impact	5.4	0.9%	17.0	0.9%
Foreign currency translation impact	(0.6)	(0.1)%	(16.2)	(0.9)%
Period ended April 30, 2014	$ 624.2	0.8%	$ 1,805.2	0.0%

	Three Month Period		Nine Month Period	
	Net Earnings	Percent Change in Net Earnings	Net Earnings	Percent Change in Net Earnings
Period ended April 30, 2012	$ 70.9	NA	$ 193.3	NA
Net earnings change, excluding foreign currency translation impact	(0.4)	(0.6)%	(16.6)	(8.6)%
Foreign currency translation impact	(0.7)	(1.0)%	(1.9)	(1.0)%
Period ended April 30, 2013	$ 69.8	(1.6)%	$ 174.8	(9.6)%
Net earnings change, excluding foreign currency translation impact	(2.3)	(3.3)%	13.9	8.0%
Foreign currency translation impact	(0.2)	(0.3)%	(1.4)	(0.8)%
Period ended April 30, 2014	$ 67.3	(3.6)%	$ 187.3	7.2%

Gross margin was 35.8 percent for the third quarter of 2014, consistent with the prior year period. Gross margin was 35.4 percent year-to-date, compared to 34.3 percent in the prior year. The increase for the nine-month period is primarily attributable to positive mix impacts from the reduction in large Gas Turbine projects, and a higher percentage of replacement filter sales which was due to strong utilization of existing equipment in the field and new business gains. Overall, product mix had a positive 60 basis points impact on gross margin. In addition, ongoing Continuous Improvement initiatives improved gross margin by approximately 60 basis points compared to the prior year period. Offsetting these benefits was the 10 basis points impact on margin from higher incentive compensation costs and indirect costs as the Company made higher investments in engineering and operations. Additionally, there were $0.1 million of restructuring expenses in the quarter.

Purchased raw materials generally represent approximately 60 to 65 percent of the Company s cost of sales. Of that amount, steel, including fabricated parts, represents approximately 25 percent. Filter media represents approximately 15 to 20 percent and the remainder is primarily made up of petroleum-based products and other components. The cost the Company paid for steel during the three months ended April 30, 2014 varied by grade, but in aggregate it increased slightly compared to the prior year. The Company s cost of filter media also varies by type, but was generally flat compared to the third quarter of Fiscal 2013. The cost of petroleum-based products was generally flat over the prior year quarter. Currently, the market prices for steel and petroleum-based products are expected to increase slightly over the near term. The Company enters into selective supply arrangements with certain of our steel suppliers that allow us to reduce volatility in the Company s costs. The Company currently has steel purchase arrangements in the U.S. with durations ranging from three months to five months for approximately 70 percent of its requirements. The Company believes these arrangements will help reduce the impact of an increasing steel market through July 2014. The Company does strive to recover or offset all material cost increases through selective price increases to its Customers and the Company s Continuous Improvement initiatives, which include material substitution, process improvement, and product redesigns.

Operating expenses were $130.7 million for the third quarter, up 6.4 percent from $122.9 million in the prior year period. As a percent of sales, operating expenses for the third quarter were 20.9 percent, up from 19.8 percent of sales during the prior year quarter. The increase in operating expenses as a percent of sales was primarily due to higher compensation expenses, incremental expenses related to our Global ERP Project, and increased travel and business meeting expenses, which contributed 150 basis points in total. These increases were partially offset by lower pension, insurance, and warranty expenses, which reduced our operating expenses as a percent of sales by 40 basis points. Operating expenses year-to-date were $382.9 million, or 21.2 percent of sales, compared to $375.5 million, or 20.8 percent of sales, in the prior year.

Other income, net for the third quarter of Fiscal 2014 totaled $3.8 million, compared to $3.6 million in the third quarter of the prior year. Year-to-date other income totaled $10.2 million compared to $12.0 million reported in the prior year. The decrease was driven by $0.9 million of restructuring expenses related to the sale of a facility in Germany. In addition, the prior year included the impact of a favorable insurance recovery. These decreases were partially offset by an increase in foreign exchange gains of $1.3 million and an increase of $0.8 million in income generated from the Company s joint venture with Caterpillar.

The effective tax rate for the three and nine months ended April 30, 2014 was 28.5 percent and 27.9 percent, respectively. The effective tax rate for the three and nine months ended April 30, 2013 was 29.8 percent and 29.2 percent, respectively. The decrease in our effective tax rate for the three months ended April 30, 2014 was primarily due to changes to the mix of earnings between tax jurisdictions. The decrease in our effective tax rate for the nine months ended April 30, 2014 was primarily due to a tax benefit associated with the favorable settlement of a tax audit. This benefit was partially offset by a tax expense related to an intercompany dividend and non-recurring tax benefits recorded during the prior year nine-month period primarily related to the expiration of some statutes of limitations, the retroactive reinstatement of the Research and Experimentation Credit in the United States, and the tax impact of foreign dividend distributions.

Operations by Segment

Following is financial information for the Company s Engine and Industrial Products segments. Corporate and Unallocated includes corporate expenses determined to be non-allocable to the segments and interest income and expense. Segment detail is summarized as follows (thousands of dollars):

	Engine Products	Industrial Products	Corporate & Unallocated	Total Company
Three Months Ended April 30, 2014:				
Net sales	$ 402,157	$ 222,077	$	$ 624,234
Earnings before income taxes	$ 61,432	$ 32,507	$ 243	94,182
Three Months Ended April 30, 2013:				
Net sales	$ 383,314	$ 236,057	$	$ 619,371
Earnings before income taxes	$ 65,680	$ 37,555	$ (3,759)	99,476
Nine Months Ended April 30, 2014:				
Net sales	$ 1,160,948	$ 644,292	$	$ 1,805,240
Earnings before income taxes	$ 170,799	$ 91,682	$ (2,630)	259,851
Assets	$ 890,639	$ 552,533	$ 454,829	1,898,001
Nine Months Ended April 30, 2013:				
Net sales	$ 1,107,814	$ 696,540	$	$ 1,804,354
Earnings before income taxes	$ 152,129	$ 102,709	$ (7,835)	247,003
Assets	$ 815,604	$ 539,151	$ 402,853	1,757,608

Following are net sales by product within the Engine and Industrial Products segments (thousands of dollars):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	2013	2014	2013
Engine Products segment:				
Off-Road Products	$ 88,791	$ 93,797	$ 260,302	$ 268,056
On-Road Products	33,081	30,288	95,398	96,207
Aftermarket Products*	255,818	231,747	729,052	668,264
Aerospace and Defense Products	24,467	27,482	76,196	75,287
Total Engine Products segment	402,157	383,314	1,160,948	1,107,814
Industrial Products segment:				
Industrial Filtration Solutions Products	137,364	125,447	401,642	386,475
Gas Turbine Products	42,005	68,733	110,106	182,295
Special Applications Products	42,708	41,877	132,544	127,770
Total Industrial Products segment	222,077	236,057	644,292	696,540
Total Company	$ 624,234	$ 619,371	$ 1,805,240	$ 1,804,354

* Includes replacement part sales to the Company s OEM Engine Products Customers.

Engine Products Segment For the third quarter of Fiscal 2014, worldwide Engine Products sales were $402.2 million, an increase of 4.9 percent from $383.3 million in the third quarter of the prior year, driven by a 10.4 percent increase in Aftermarket Products. Sales in Europe increased by 12.9 percent, partially due to positive impacts of foreign currency during the quarter, and 4.6 percent in the Americas, somewhat offset by a decrease in Asia of 1.2 percent due to the negative impacts of foreign currency compared to the same period in the prior year. The impact of foreign currency translation during the third quarter of Fiscal 2014 decreased sales by $1.9 million, or 0.5 percent. Year-to-date worldwide Engine Products sales were $1,160.9 million, an increase of 4.8 percent from $1,107.8 million in the prior year period, driven by a 9.1 percent increase in Aftermarket Products and a 1.2 percent sales increase in Aerospace and Defense Products. Sales in Europe and the Americas increased by 13.8 percent and 4.4 percent, respectively, partially offset by a decrease in Asia of 2.8 percent compared to the same period in the prior year. The impact of foreign currency translation on the year-to-date results as of the third quarter of Fiscal 2014 decreased sales by $15.8 million, or 1.4 percent.

For the three months ended April 30, 2014, earnings before income taxes as a percentage of Engine Product segment sales were 15.3 percent, a decrease from 17.1 percent in the prior year period. The decrease was primarily due to $2.0 million in incremental expenses related to incentive compensation, $0.6 million of incremental expenses related to the Company s Global ERP project, and $0.1 million of restructuring expenses in the quarter. Year-to-date earnings before income taxes as a percentage of Engine Products segment sales were 14.7 percent, an increase from 13.7 percent in the prior year. The percentage earnings increase for the nine months ended April 30, 2014 was driven by improved fixed cost absorption, due to an increase in production volumes, and the positive mix impacts from higher aftermarket sales, partially offset by $6.7 million of incremental expenses related to incentive compensation, $2.1 million of incremental expenses related to the Company s Global ERP project, and $0.9 million of restructuring expenses.

Worldwide sales of Off-Road Products in the current quarter were $88.8 million, a decrease of 5.3 percent from $93.8 million in the third quarter of the prior year. Sales of Off-Road Products were down 3.2 percent from the third quarter of the prior year in the Americas, 1.6 percent in Europe, and 14.6 percent in Asia. Year-to-date worldwide sales of Off-Road Products totaled $260.3 million, a decrease of 2.9 percent from $268.1 million in the prior year. Year-to-date sales of Off-Road Products were down 5.9 and 10.1 percent from the prior year in the Americas and Asia, respectively. These decreases were partially offset by an increase of 5.5 percent in Europe. For the three and nine months ended April 30, 2014, the sales decreases were driven by continued weakness in mining equipment markets and softening in the agricultural equipment market, which were partially offset by an improving construction equipment market and sales of new and additional products per vehicle in Europe.

Worldwide sales of On-Road Products in the current quarter were $33.1 million, an increase of 9.2 percent from $30.3 million in the third quarter of the prior year. Sales increased during the quarter 55.2 percent in Europe and 6.2 percent in Asia. The increase in the current quarter compared to the prior year period was due primarily to continued growth in Europe after the Euro VI diesel emissions regulations went into effect January 1, 2014. Year-to-date worldwide sales of On-Road Products were $95.4 million, a decrease of 0.8 percent from $96.2 million in the prior year. Year-to-date sales decreased 6.7 percent in the Americas and 5.1 percent in Asia, offset by a sales increase of 36.5 percent in Europe. For the nine months ended April 30, 2014, sales decreased primarily due to lower emissions sales in the Americas for an OEM program the Company no longer supplies totaling $5.0 million.

Worldwide sales of Aftermarket Products in the current quarter were $255.8 million, an increase of 10.4 percent from $231.7 million in the third quarter of the prior year. Aftermarket Products sales during the quarter increased 17.2 percent in Europe, 11.8 percent in the Americas, and 4.7 percent in Asia. Year-to-date, worldwide sales of Aftermarket Products were $729.1 million, an increase of 9.1 percent from $668.3 million in the prior year. Aftermarket Products sales increased 15.4 percent in Europe, 10.6 percent in the Americas, and 1.8 percent in Asia. Sales for the three and nine months ended April 30, 2014, were primarily driven by increases in utilization rates of equipment fleets, increased sales of the Company s proprietary replacement filters, and expansion of the Company s product portfolio and distribution. PowerCore brand replacement filter sales contributed $2.7 million to the increase over the prior year quarter and $10.5 million year-to-date.

Worldwide sales of Aerospace and Defense Products were $24.5 million, a decrease of 11.0 percent from $27.5 million in the third quarter of the prior year. Sales decreased 23.8 percent in the Americas, partially offset by a sales increase of 31.5 percent in Europe and 7.5 percent in Asia. For the three months ended April 30, 2014, the sales decreases were primarily due to the continued slowdown in U.S. military ground vehicle spending. Year-to-date worldwide sales of Aerospace and Defense Products were $76.2 million, an increase of 1.2 percent from $75.3 million in the prior year. Sales increased 30.7 percent in Europe, partially offset by a 6.3 percent sales decrease in the Americas and 21.6 percent in Asia. For the nine months ended April 30, 2014, the sales increases were mostly due to higher helicopter air filter sales, which increased $4.7 million, partially offset by the continued slowdown in U.S. military ground vehicle spending.

Industrial Products Segment For the current quarter, worldwide sales in the Industrial Products segment were $222.1 million, a decrease of 5.9 percent from $236.1 million in the third quarter of the prior year. This decrease was driven by a 38.9 percent decrease in Gas Turbine Products, partially offset by sales increases in Industrial Filtration Solutions Products and Special Applications Products of 9.5 percent and 2.0 percent, respectively. Sales in Asia and the Americas decreased by 10.7 percent, and 9.7 percent, respectively, partly due to the negative impacts of foreign currency translation in Asia, partially offset by a sales increase in Europe of 4.2 percent, which was partly due to positive impacts of foreign currency translation. The impact of foreign currency translation during the third quarter of Fiscal 2014 increased sales by $1.3 million, or 0.6 percent. Year-to-date global net sales were $644.3 million, a decrease of 7.5 percent from $696.5 million in the prior year. This decrease was driven by a 39.6 percent decrease in Gas Turbine Products, partially offset by sales increases in Industrial Filtration Solutions Products and Special Applications Products of 3.9 percent and 3.7 percent, respectively. Year-to-date sales in Asia, Europe, and the Americas decreased by 14.4 percent, 4.1 percent, and 3.7 percent, respectively, compared to the same period in the prior year. The impact of foreign currency translation on the year-to-date results decreased sales by $0.4 million, or 0.1 percent.

For the three months ended April 30, 2014, earnings before income taxes as a percentage of sales were 14.6 percent, a decrease from 15.9 percent in the prior year period due to lower sales, incremental expenses related to incentive compensation of $1.6 million, and the costs of the Company s Global ERP Project of $0.3 million. Year-to-date earnings before income taxes as a percentage of Industrial Products segment sales were 14.2 percent, a decrease from 14.7 percent in the prior year. The earnings percentage decrease for the nine months ended April 30, 2014, was due to restructuring expenses primarily related to the sale of a facility in Germany, incremental expenses related to incentive compensation of $5.2 million, and the costs of the Company s Global ERP Project of $1.1 million.

Worldwide sales of Industrial Filtration Solutions Products in the current quarter were $137.4 million, an increase of 9.5 percent from $125.4 million in the prior year. Sales increased in Asia, Europe, and the Americas by 20.2 percent, 11.2 percent, and 6.4 percent, respectively. Year-to-date worldwide sales of Industrial Filtration Solutions Products were $401.6 million, an increase of 3.9 percent from $386.5 million in the prior year. Sales increased 6.9 percent, 4.9 percent, and 2.4 percent in Europe, Asia, and the Americas, respectively. For the three and nine months ended April 30, 2014, the Company continued to experience mixed market conditions globally. Strong replacement air filter sales, due to improved manufacturing activity, were partially offset by continued soft new equipment sales, due to the continued weak capital spending environment, particularly in the Americas. The externally published durable goods index in the U.S., which has historically been a leading indicator for equipment sales, increased 6.6 percent during the third quarter of Fiscal 2014 as compared to last year.

Worldwide sales of the Company s Gas Turbine Products in the third quarter were $42.0 million, a decrease of 38.9 percent compared to record sales of $68.7 million in the prior year quarter. Year-to-date global sales of the Company s Gas Turbine Products were $110.1 million, a decrease of 39.6 percent compared to sales of $182.3 million in the prior year period. Gas Turbine Products sales are typically large systems and, as a result, the Company s shipments and revenues fluctuate from period to period. Sales of Gas Turbine Products systems were down for the three and nine months ended April 30, 2014, primarily due to fewer shipments of large systems used in power generation.

Worldwide sales of Special Application Products were $42.7 million in the current quarter, an increase of 2.0 percent from $41.9 million in the prior year quarter. Sales increased by 8.5 percent and 5.8 percent in Europe and Asia, respectively, partially offset by a sales decrease of 13.7 percent in the Americas, from the prior year period. Year-to-date worldwide sales of Special Application Products were $132.5 million, an increase of 3.7 percent from $127.8 million in the prior year. Sales increased by 10.6 percent and 4.8 percent in Europe and Asia, respectively, partially offset by a sales decrease 6.0 percent in the Americas, from the prior year period. For the three and nine months ended April 30, 2014, the sales increases were driven by a worldwide increase in demand for the Company s disk drive, semiconductor, and venting products, partially offset by weakness in industrial end-markets negatively impacting the Company s membrane product sales.

Liquidity and Capital Resources

During the first nine months of Fiscal 2014, $230.1 million of cash was generated from operating activities, compared with $217.4 million in the prior year period. The current year had increases in accrued compensation and accounts payable of $28.1 million and $26.9 million compared to the prior year, respectively. These were partially offset by increases in inventory and receivables which used $37.5 million and $20.4 million, respectively, of cash compared to the prior year.

The Company s inventory balance was $254.2 million as of April 30, 2014, as compared to $234.8 million as of July 31, 2013. This increase was driven by foreign currency translation as well as inventory build in anticipation of increased sales in late fiscal 2014 and early fiscal 2015. The Company s accounts receivable balance was $453.2 million as of April 30, 2014, as compared to $430.8 million as of July 31, 2013. This increase was driven by the timing of receipt of payments from some of our larger Customers compared to the fourth quarter of the prior fiscal year as well as by impacts from foreign currency translation.

In the first nine months of Fiscal 2014, operating cash flows and cash on hand were used to repurchase 4,039,000 shares of treasury stock for $165.9 million, to make $66.0 million in capital investments, and to pay $59.7 million in dividends. For additional information regarding share repurchases see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds.

At the end of the third quarter, the Company held $238.2 million in cash and cash equivalents, up from $224.1 million at July 31, 2013. Short-term investments were $152.5 million compared to $99.8 million at July 31, 2013. Short-term investments may change quarter to quarter based on maturity dates of existing investments, the Company s outlook for cash needs, and available access to other sources of liquidity. The amount of unused lines of credit as of April 30, 2014 was approximately $487.4 million. Current maturities of long-term debt of $17.7 million at quarter-end decreased from $98.7 million at July 31, 2013, as the Company repaid $80.0 million of current maturities of long-term debt in the second quarter of the current fiscal year. Long-term debt of $227.8 million at April 30, 2014, increased from $102.8 million at July 31, 2013, due to the issuance of $125.0 million of senior unsecured notes during the quarter. Long-term debt represented 16.8 percent of total long-term capital, defined as long-term debt plus total shareholders equity, compared to 8.7 percent at July 31, 2013.

The majority of the Company s cash and cash equivalents and short-term investments are held by its foreign subsidiaries, as over half of the Company s earnings occur outside the U.S. Most of these funds are considered permanently reinvested outside the U.S., and will only be repatriated when it is tax effective to do so, as the cash generated from U.S. operations and the Company s access to liquidity in the U.S. is anticipated to be sufficient for the U.S cash needs. If additional cash were required for the Company s operations in the U.S. and funds were repatriated from certain foreign subsidiaries, the Company may be subject to additional U.S. taxes.

The Company s general funding policy for its pension plans is to make at least the minimum contributions as required by applicable regulations. The Company may elect to make additional contributions up to the maximum tax deductible contribution. For the nine months ended April 30, 2014, the Company made contributions of $2.7 million to its non-U.S. pension plans and $0.5 million to its U.S. pension plans. The minimum funding requirement for the Company s U.S. plans for Fiscal 2014 is $12.1 million. Per the Pension Protection Act of 2006, this obligation can be met with existing credit balances that resulted from payments above the minimum obligation in prior years. The Company plans to utilize existing credit balances to meet the minimum obligation. The Company currently estimates that it will contribute an additional $2.9 million to its non-U.S. pension plans during the remainder of Fiscal 2014.

The following table summarizes the Company s contractual obligations as of April 30, 2014 (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Long-term debt obligations	$ 241,135,341	$ 16,135,341	$	$ 100,000,000	$ 125,000,000
Capital lease obligations	3,006,924	1,184,532	1,822,392		
Interest on long-term debt obligations	66,493,738	10,217,385	20,301,353	12,725,000	23,250,000
Operating lease obligations	26,567,984	11,205,380	12,089,334	3,101,683	171,587
Purchase obligations (1)	165,333,069	155,839,144	9,471,075	3,973	18,877
Pension and deferred compensation (2)	114,965,607	15,485,238	14,370,718	14,298,127	70,811,524
Total (3)	$ 617,502,663	$ 210,067,020	$ 58,054,872	$ 130,128,783	$ 219,251,988

(1) Purchase obligations consist primarily of inventory, tooling, contract employment services, and capital expenditures. The Company s purchase orders for inventory are based on expected Customer demand and quantities and dollar volumes are subject to change.

(2) Pension and deferred compensation consists of long-term pension liabilities and salary and bonus deferrals elected by certain executives under the Company s deferred compensation plan. Deferred compensation balances earn interest based on a treasury bond rate as defined by the plan (10-year treasury bond STRIP rate plus two percent for deferrals prior to January 1, 2011, and 10-year treasury bond rates for deferrals after December 31, 2010) and approved by the Human Resources Committee of the Board of Directors, and are payable at the election of the participants.

(3) In addition to the above contractual obligations, the Company may be obligated for additional cash outflows of $15.0 million of potential tax obligations, including accrued interest and penalties. The payment and timing of any such payments is affected by the ultimate resolution of the tax years that are under audit or remain subject to examination by the relevant taxing authorities.

At April 30, 2014, the Company had a contingent liability for standby letters of credit totaling $7.8 million that have been issued and are outstanding. The letters of credit guarantee payment to third parties in the event the Company is in breach of insurance contract terms as detailed in each letter of credit. At April 30, 2014, there were no amounts drawn upon these letters of credit.

The Company has a five-year, multi-currency revolving credit facility with a group of banks under which the Company may borrow up to $250.0 million. The agreement provides that loans may be made under a selection of currencies and rate formulas including Base Rate Loans or LIBOR Rate Loans. The interest rate on each advance is based on certain market interest rates and leverage ratios. Facility fees and other fees on the entire loan commitment are payable over the duration of this facility. As of April 30, 2014, there was $60.0 million outstanding on this facility. The multi-currency revolving facility contains debt covenants specifically related to maintaining a certain interest coverage ratio, and a certain leverage ratio as well as other covenants that, under certain circumstances, can restrict the Company s ability to incur additional indebtedness, make investments and other restricted payments, create liens, and sell assets. As of April 30, 2014, the Company was in compliance with all such covenants. The Company expects to remain in compliance with these covenants.

On March 27, 2014, the Company issued $125.0 million of senior unsecured notes due March 27, 2024. The debt was issued at face value and bears interest payable semi-annually at an annual rate of interest of 3.72 percent. The proceeds from the notes were used to refinance existing debt and for general corporate purposes. The notes contain debt covenants specifically related to maintaining a certain leverage ratio as well as other covenants that, under certain circumstances, can restrict the Company s ability to incur additional indebtedness, make investments and other restricted payments, create liens, and sell assets. As of April 30, 2014, the Company was in compliance with all such covenants.

During the quarter, credit in the global credit markets was accessible and market interest rates remained low. The Company believes that its current financial resources, together with cash generated by operations, are sufficient to continue financing its operations for the next twelve months. There can be no assurance, however, that the cost or availability of future borrowings will not be impacted by future capital market disruptions.

The Company does not have any off-balance sheet arrangements, with the exception of the guarantee of 50 percent of certain debt of its joint venture, AFSI, as further discussed in Note I of the Company s Notes to Condensed Consolidated Financial Statements.

New Accounting Standards Not Yet Adopted

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance related to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. This guidance is effective for the Company beginning the first quarter of Fiscal 2015. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

Critical Accounting Policies

There have been no material changes to the Company s critical accounting policies as disclosed in the Company s Annual Report on Form 10-K for the year ended July 31, 2013.

Outlook

We project our Company s full fiscal year sales to be between $2.44 and $2.48 billion, or a slight increase over the prior year including the negative impact of foreign currency exchange rates. Our forecast is based on the Euro at US$1.35 and 102 Yen to the US$.

Our full-year operating margin forecast is 14.1 to 14.5 percent. Included in this forecast is approximately $22 million in operating expense increases for our Global ERP project and incentive compensation.

Our Fiscal 2014 tax rate is anticipated to be between 28 and 29 percent.

We forecast our full-year FY14 EPS to be between $1.69 and $1.77.

Cash generated by operating activities for Fiscal 2014 is projected to be between $310 and $330 million. Our capital spending for Fiscal 2014 is estimated to be approximately $90 million. Our share repurchase target remains at 4 percent of our diluted outstanding shares in FY14.

SAFE HARBOR STATEMENT UNDER THE SECURITIES REFORM ACT OF 1995

The Company, through its management, may make forward-looking statements reflecting the Company s current views with respect to future events and financial performance. These forward-looking statements, which may be included in reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), in press releases and in other documents and materials as well as in written or oral statements made by or on behalf of the Company, are subject to certain risks and uncertainties, including those discussed in Item 1A of the Company s Annual Report on Form 10-K for the year ended July 31, 2013, which could cause actual results to differ materially from historical results or those anticipated. The words or phrases will likely result, are expected to, will continue, estimate, project, believe, expect, forecast and similar expressions are intended to identify forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended, as enacted by the Private Securities Litigation Reform Act of 1995 (PSLRA). In particular, the Company desires to take advantage of the protections of the PSLRA in connection with the forward-looking statements made in this Quarterly Report on Form 10-Q, including those contained in the Outlook section of Part I, Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements are made. In addition, the Company wishes to advise readers that the factors listed in Item 1A of the Company s Annual Report on Form 10-K for the year ended July 31, 2013, as well as other factors, could affect the Company s performance and could cause the Company s actual results for future periods to differ materially from any opinions or statements expressed. These factors include, but are not limited to, risks associated with: world economic factors and the ongoing economic uncertainty, the reduced demand for hard disk drive products with the increased use of flash memory, the potential for some Customers to increase their reliance on their own filtration capabilities, currency fluctuations, commodity prices, political factors, the Company s international operations, highly competitive markets, governmental laws and regulations, including the impact of the various economic stimulus and financial reform measures, the implementation of our new information technology systems, information security and data breaches, potential global events resulting in market instability including financial bailouts and defaults of sovereign nations, military and terrorist activities, health outbreaks, natural disasters, and other factors included in Item 1A of the Company s Annual Report on Form 10-K for the year ended July 31, 2013. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in the reported market risk of the Company since July 31, 2013. See further discussion of these market risks in the Company s Annual Report on Form 10-K for the year ended July 31, 2013.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: As of the end of the period covered by this report (the Evaluation Date), the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in applicable rules and forms, and (ii) accumulated and communicated to the Company s management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting: There was no change in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the fiscal quarter ended April 30, 2014, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

The Company is in the process of a multi-year implementation of a global enterprise resource planning, or ERP, system. In the second quarter of Fiscal 2014, the Company began deploying the system in certain operations, primarily in the Americas. The deployment continued in the third quarter of Fiscal 2014 to additional operations in the Americas. In response to business integration activities related to the new system, the Company is aligning and streamlining the design and operation of the financial reporting controls environment to be responsive to the changing operating environment.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company records provisions with respect to identified claims or lawsuits when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Claims and lawsuits are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter. The Company believes the recorded reserves in its consolidated financial statements are adequate in light of the probable and estimable outcomes. Any recorded liabilities were not material to the Company s financial position, results of operations, or liquidity, and the Company does not believe that any of the currently identified claims or litigation will materially affect its financial position, results of operations or liquidity.

Item 1A. Risk Factors

There are inherent risks and uncertainties associated with the Company s global operations that involve the manufacturing and sale of products for highly demanding Customer applications throughout the world. These risks and uncertainties could adversely affect the Company s operating performances or financial condition. The Risk Factors section in the Company s Annual Report on Form 10-K for the year ended July 31, 2013, includes a discussion of these risks and uncertainties.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Equity Securities

The following table sets forth information in connection with purchases made by, or on behalf of, the Company or any affiliated purchaser of the Company, of shares of the Company s common stock during the quarterly period ended April 30, 2014.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
February 1 - February 28, 2014	800,712	$ 40.86	800,712	12,899,483
March 1 - March 31, 2014	484,826	$ 42.22	467,411	12,432,072
April 1 - April 30, 2014	1,131,671	$ 41.61	1,131,671	11,300,401
Total	2,417,209	$ 41.48	2,399,794	11,300,401

(1) On September 27, 2013, the Company announced that the Board of Directors authorized the repurchase of up to 15.0 million shares of common stock. This repurchase authorization, which is effective until terminated by the Board of Directors, replaced the existing authority that was authorized on March 26, 2010. There were no repurchases of common stock made outside of the Company s current repurchase authorization during the quarter ended April 30, 2014. However, the Total Number of Shares Purchased column of the table above includes 17,415 previously owned shares tendered by option holders in payment of the exercise price of options during the quarter. While not considered repurchases of shares, the Company does at times withhold shares that would otherwise be issued under equity-based awards to cover the withholding taxes due as a result of exercising stock options or payment of equity based awards.

Item 6. Exhibits

*3-A Restated Certificate of Incorporation of Registrant as currently in effect (Filed as Exhibit 3-A to Form 10-Q Report for the Third Quarter ended January 31, 2012)

*3-B Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of Registrant, dated as of March 3, 2006 (Filed as Exhibit 3-B to 2011 Form 10-K Report)

*3-C Amended and Restated Bylaws of Registrant (as of January 30, 2009) (Filed as Exhibit 3-C to Form 10-Q Report for the Third Quarter ended January 31, 2009)

*4 **

*4-A Preferred Stock Amended and Restated Rights Agreement between Registrant and Wells Fargo Bank, N.A., as Rights Agent, dated as of January 27, 2006 (Filed as Exhibit 4-A to 2011 Form 10-K Report)

10.1 Note Purchase Agreement, dated as of March 27, 2014, by and among Donaldson Company, Inc. and the purchasers named therein (Filed as Exhibit 10.1 to the current report on Form 8-K filed April 2, 2014)

31-A Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31-B Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following information from the Donaldson Company, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2014 as filed with the Securities and Exchange Commission, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) The Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

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* Exhibit has previously been filed with the Securities and Exchange Commission and is incorporated herein by reference as an exhibit.

** Pursuant to the provisions of Regulation S-K Item 601(b)(4)(iii)(A) copies of instruments defining the rights of holders of certain long-term debts of the Company and its subsidiaries are not filed and in lieu thereof the Company agrees to furnish a copy thereof to the Securities and Exchange Commission upon request.

*** Denotes compensatory plan or management contract.

SIGNATURES

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

DONALDSON COMPANY, INC.
(Registrant)

Date: June 6, 2014	By: /s/ William M. Cook William M. Cook Chairman, President and Chief Executive Officer (duly authorized officer)
Date: June 6, 2014	By: /s/ James F. Shaw James F. Shaw Vice President, Chief Financial Officer (principal financial officer)
Date: June 6, 2014	By: /s/ Melissa A. Osland Melissa A. Osland Corporate Controller (principal accounting officer)

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862

Net cash used in financing activities

(33,204
)

(26,963
)

Net decrease in cash and cash equivalents

(46,297
)

(102,702

)
Cash and cash equivalents at beginning of period

225,755

264,544

Cash and cash equivalents at end of period

$
179,458

$
161,842

See accompanying notes.

INSPERITY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

1. Basis of Presentation

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

In addition to 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 "Strategic Business Units", formerly known as 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, in customizable bundles, or along with Workforce Optimization.

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

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

The accompanying Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements as of and for the year ended December 31, 2013. Our Consolidated Balance Sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all of the information or footnotes required by GAAP for complete financial statements. Our Consolidated Balance Sheet at September 30, 2014 and our Consolidated Statements of Operations and Comprehensive Income for the three and nine month periods ended September 30, 2014 and 2013, our Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2014 and 2013, and our Consolidated Statement of Stockholders' Equity for the nine month period ended September 30, 2014 , have been prepared by us without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows, have been made.

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

2. Accounting Policies

Health Insurance Costs

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

contracts.

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

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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 September 30, 2014, and is reported as a long-term asset. As of September 30, 2014, Plan Costs were less than the net premiums paid and owed to United by $31.8 million. As this amount is in excess of the agreed-upon $9.0 million surplus maintenance level, the $22.8 million balance is included in prepaid insurance, a current asset, in our Consolidated Balance Sheets. The premiums owed to United at September 30, 2014 were $22.7 million, which is included in accrued health insurance costs, a current liability in our Consolidated Balance Sheets. Our benefits costs incurred in the first nine months of 2014 included costs of $2.4 million for changes in estimated run-off related to 2013.

Workers' Compensation Costs

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

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

We employ a third party actuary to estimate our loss development rate, which is primarily based upon the nature of worksite employees' job responsibilities, the location of worksite employees, the historical frequency and severity of workers' compensation claims, and an estimate of future cost trends. Each reporting period, changes in the actuarial assumptions resulting from changes in actual claims experience and other trends are incorporated into our workers' compensation claims cost estimates. During the nine months ended September 30, 2014 and 2013, we reduced our workers' compensation costs by $3.0 million and $8.3 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 the 2014 and 2013 periods were 1.0% and 0.7%, respectively) 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 presents the activity and balances related to incurred but not paid workers' compensation claims:

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Beginning balance, January 1,	$120,833	$111,685
Accrued claims	39,130	30,496
Present value discount	(1,418)	(748)
Paid claims	(28,314)	(24,462)
Ending balance	$130,231	$116,971
Current portion of accrued claims	$57,222	$50,317
Long-term portion of accrued claims	73,009	66,654
	$130,231	$116,971

The current portion of accrued workers' compensation costs on our Consolidated Balance Sheets at September 30, 2014 includes $2.2 million of workers' compensation administrative fees.

As of September 30, 2014 and 2013, the undiscounted accrued workers' compensation costs were $140.0 million and $127.5 million, respectively.

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. During the first nine months of 2014 and 2013, we paid the insurance carrier an additional $7.2 million and $5.0 million, respectively, in claim funds for prior policy years, which increased deposits. As of September 30, 2014, we had restricted cash of $57.2 million and deposits of $93.7 million.

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

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3. Cash, Cash Equivalents and Marketable Securities

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

	September 30, 2014 (in thousands)	December 31, 2013
Overnight Holdings		
Money market funds (cash equivalents)	$123,800	$192,040
Investment Holdings		
Money market funds (cash equivalents)	43,427	42,913
Marketable securities	45,953	46,340
	213,180	281,293
Cash held in demand accounts	20,778	23,054
Outstanding checks	(8,547)	(32,252)
Total cash, cash equivalents and marketable securities	$225,411	$272,095
Cash and cash equivalents	$179,458	$225,755
Marketable securities	45,953	46,340
Total cash, cash equivalents and marketable securities	$225,411	$272,095

Our cash and overnight holdings fluctuate based on the timing of clients' payroll processing cycles. Included in the cash balance as of September 30, 2014 and December 31, 2013, are $90.8 million and $143.0 million, respectively, in funds associated with federal and state income tax withholdings, employment taxes and other payroll deductions, as well as $18.3 million and $24.5 million in client prepayments, respectively.

We account for our financial assets in accordance with Accounting Standard Codification ("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 table summarizes the levels of fair value measurements of our financial assets:

	Fair Value Measurements (in thousands) September 30, 2014	Level 1	Level 2	Level 3
Money market funds	$167,227	$167,227	$—	$—
Municipal bonds	45,953	—	45,953	—
Total	$213,180	$167,227	$45,953	$—

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	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	$—

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
September 30, 2014				
Municipal bonds	$45,912	$45	$(4)	$45,953
December 31, 2013				
Municipal bonds	$46,290	$51	$(1)	$46,340

As of September 30, 2014, the contractual maturities of our marketable securities were as follows:

	Amortized Cost (in thousands)	Estimated Fair Value
Less than one year	$14,503	$14,519
One to five years	31,409	31,434
Total	$45,912	$45,953

4. Goodwill and Other Intangible Assets

During the second quarter of 2014, impairment indicators were identified in our Employment Screening business, which is a discrete reporting unit, due to changes in management, the reporting unit's financial results and the loss of certain customers. As a result, we performed impairment tests for our Employment Screening business' long-lived assets and goodwill and concluded that the assets were impaired. The impairments resulted primarily from lower projected revenue growth rates and profitability levels. Accordingly, we recognized intangible asset impairments of $0.7 million and, upon completion of step two of the goodwill impairment test, we recognized a goodwill impairment charge of $1.8 million in the second quarter of 2014. The fair values of the long-lived assets and reporting unit were estimated using discounted cash flow models, which we believe appropriately estimates the fair values of the long-lived assets and reporting unit. The material assumptions used in the models included the weighted average cost of capital and long-term growth rates. We consider these to be Level 3 fair value measures.

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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, 2013	Nine Months Ended September 30, 2014		September 30, 2014
	Balance	Impairment	Amortization Expense	Balance
	(in thousands)			
Gross carrying amount:				
Trademarks	$1,230	$(1,010)	$—	$220
Customer relationships	7,784	(1,392)	—	6,392
Aggregate goodwill acquired:				
Goodwill	21,156	—	—	21,156
Total	$30,170	$(2,402)	$—	$27,768
Accumulated amortization:				
Trademarks	$(680)	$695	$(67)	$(52)
Customer relationships	(4,340)	976	(1,074)	(4,438)
Accumulated impairment:				
Goodwill	(6,716)	(1,754)	—	(8,470)
Total	$(11,736)	$(83)	$(1,141)	$(12,960)
Net carrying amount:				
Trademarks	$550	$(315)	$(67)	$168
Customer relationships	3,444	(416)	(1,074)	1,954
Goodwill	14,440	(1,754)	—	12,686
Total goodwill and other intangible assets	$18,434	$(2,485)	$(1,141)	$14,808

5. 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, during the second quarter of 2013. Due to federal income tax limitations on capital losses, no tax benefit associated with the impairment was recognized.

6. Revolving Credit Facility

We have a $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 matures on September 15, 2015. The Facility contains both affirmative and negative covenants, which we believe are customary for arrangements of this nature. At September 30, 2014, we were in compliance with all financial covenants under the Credit Agreement and had not drawn on the Facility. As of September 30, 2014, we had an outstanding $0.6 million letter of credit issued under the Facility.

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7. Stockholders' Equity

Our Board of Directors (the "Board") has authorized a program to repurchase shares of our outstanding common stock ("Repurchase Program"). The purchases are to be made from time to time in the open market or directly from stockholders at prevailing market prices based on market conditions and other factors. During the nine months ended September 30, 2014, 580,804 shares were repurchased under the Repurchase Program and 112,458 shares not subject to the Repurchase Program were withheld to satisfy tax withholding obligations for the vesting of restricted stock awards. As of September 30, 2014, we were authorized to repurchase an additional 768,765 shares under the program.

The Board declared quarterly dividends as follows:

	2014	2013
	(amounts per share)	
First quarter	$0.17	$0.17
Second quarter	0.19	0.17
Third quarter	0.19	0.17

During the nine months ended September 30, 2014 and 2013, we paid dividends totaling $14.0 million and $13.0 million, respectively.

8. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income	$8,385	$10,082	$19,840	$26,743
Less distributed and undistributed earnings allocated to participating securities	(243)	(289)	(576)	(769)
Net income allocated to common shares	$8,142	$9,793	$19,264	$25,974
Weighted average common shares outstanding	24,650	24,849	24,747	24,855
Incremental shares from assumed conversions of common stock options	2	18	5	24
	24,652	24,867	24,752	24,879

Adjusted weighted average common shares outstanding				
Potentially dilutive securities not included in weighted average share calculation due to anti-dilutive effect	16	—	5	10

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9. Commitments and Contingencies

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

Federal Unemployment Taxes

Employers in certain states are experiencing higher Federal Unemployment Tax Act ("FUTA") tax rates as a result of certain states not repaying their unemployment loans from the federal government in a timely manner. The Benefit Cost Ratio Add-On ("BCR") is an additional tax on the FUTA wage base for employers in states that continue to have outstanding federal unemployment insurance loans beginning with the fifth year in which there is a balance due on the loan. States had the option to apply for a waiver before July 1st of the year in which the BCR is applicable. During the second quarter of 2014, Georgia, Missouri and Wisconsin repaid their unemployment loans. There are currently 11 states with outstanding unemployment loans and of those, all but one, Connecticut, have filed for a BCR waiver. Eleven states, including California, are at risk for assessment of the BCR in 2014. We expect most states will be notified by the federal government in the fourth quarter of 2014 if a waiver has been granted in response to the state's application. The potential additional FUTA tax associated with worksite employees in these 11 states was approximately $4.3 million as of September 30, 2014.

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

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

You should read the following discussion in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013, as well as our Consolidated Financial Statements and notes thereto included in this quarterly report on Form 10-Q.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards 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, 2016, 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.

Results of Operations

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013.

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

	Three Months Ended September 30,			
	2014	2013	% Change	
	(in thousands, except per share and statistical data)			
Revenues (gross billings of $3.362 billion and $3.236 billion, less worksite employee payroll cost of $2.802 billion and $2.696 billion, respectively)	$560,303	$539,869	3.8	%
Gross profit	100,817	97,409	3.5	%
Operating expenses	86,357	80,297	7.5	%
Operating income	14,460	17,112	(15.5	)%
Other income	43	25	72.0	%
Net income	8,385	10,082	(16.8	)%
Diluted net income per share of common stock	0.33	0.39	(15.4	)%
Statistical Data:				
Average number of worksite employees paid per month	131,545	129,248	1.8	%
Revenues per worksite employee per month[(1)]	$1,420	$1,392	2.0	%
Gross profit per worksite employee per month	255	251	1.6	%
Operating expenses per worksite employee per month	218	207	5.3	%
Operating income per worksite employee per month	37	44	(15.9	)%
Net income per worksite employee per month	21	26	(19.2	)%

(1) Gross billings of $8,519 and $8,346 per worksite employee per month, less payroll cost of $7,099 and $6,954 per worksite employee per month, respectively.

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Revenues

Our revenues for the third quarter of 2014 increased 3.8% over the 2013 period, primarily due to a 1.8% increase in the average number of worksite employees paid per month and a 2.0%, or $28, increase in revenues per worksite employee per month.

We provide our Workforce Optimization solution to small and medium-sized businesses in strategically selected markets throughout the United States. By region, our Workforce Optimization revenue change from the third quarter of 2013 and distribution for the quarters ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,			Three Months Ended September 30,	
	2014	2013	% Change	2014	2013
	(in thousands)			(% of total revenue)	
Northeast	$142,376	$136,334	4.4 %	25.9 %	25.7 %
Southeast	53,615	51,813	3.5 %	9.8 %	9.8 %
Central	79,448	78,322	1.4 %	14.5 %	14.8 %
Southwest	150,404	147,518	2.0 %	27.4 %	27.8 %
West	123,531	116,959	5.6 %	22.4 %	21.9 %
	549,374	530,946	3.5 %	100.0 %	100.0 %
Other revenue[1]	10,929	8,923	22.5 %		
Total revenue	$560,303	$539,869	3.8 %		

[1] Comprised primarily of revenues generated by Strategic Business Units.

The percentage of total Workforce Optimization revenues in our significant markets include the following:

	Three Months Ended September 30,	
	2014	2013
Texas	25.3 %	25.8 %
California	17.8 %	17.5 %
New York	9.6 %	9.4 %
Other	47.3 %	47.3 %
Total	100.0 %	100.0 %

Our Workforce Optimization growth rate is affected by three primary sources – worksite employees paid from new client sales, client retention and the net change in existing clients through worksite employee new hires and layoffs. During the third quarter of 2014, we saw improvement in the net change in existing clients and worksite employees paid from new client sales as compared to the third quarter 2013, while client retention remained consistent with the third quarter of 2013.

Gross Profit

Gross profit for the third quarter of 2014 increased 3.5% over the third quarter of 2013 to $100.8 million. The average gross profit per worksite employee increased 1.6% to $255 per month in the 2014 period from $251 per month in the 2013 period. Included in gross profit in 2014 is an $18 per worksite employee per month contribution from our Strategic Businesses compared to $15 per worksite employee per month in the 2013 period.

Our pricing objectives attempt to maintain or improve the gross profit per worksite employee by increasing revenue per worksite employee to match or exceed changes in primary direct costs and operating expenses. Our revenues during the third quarter of 2014 increased 2.0% per worksite employee per month over the third quarter of 2013. Our direct costs, which primarily include payroll taxes, benefits and workers' compensation expenses, increased 2.1% to $1,165 per worksite employee

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per month in the third quarter of 2014 versus $1,141 in the third quarter of 2013. The primary direct cost components changed as follows:

- Benefits costs – The cost of group health insurance and related employee benefits increased $3 per worksite employee per month, or 1.3% on a cost per covered employee basis, compared to the third quarter of 2013. Our benefits costs incurred in the third quarter of 2014 reflect favorable claim trends due to a reduction in both large claims and COBRA participation levels, partially offset by $3.1 million, or $8 per worksite employee per month, of additional taxes primarily due to new health care reform requirements. Our estimate of incurred but not paid claims increased during the third quarter of 2014. Partially offsetting this increase were benefit cost reductions for changes in estimated claim run-off related to prior periods of $6.4 million, or $16 per worksite employee per month, in the third quarter of 2014. The percentage of worksite employees covered under our health insurance plans was 71.2% in the 2014 period compared to 71.8% in the 2013 period. Please read Note 2 to the Consolidated Financial Statements, "Accounting Policies – Health Insurance Costs," for a discussion of our accounting for health insurance costs.

- Workers' compensation costs – Workers' compensation costs increased $10 per worksite employee per month, or 29.4% compared to the third quarter of 2013, primarily due to higher incurred claim levels. As a percentage of non-bonus payroll cost, workers' compensation costs were 0.68% in the 2014 period compared to 0.55% in the 2013 period. During the 2014 period, we recorded reductions in workers' compensation costs of $0.4 million, or 0.02% of non-bonus payroll costs, for changes in estimated losses related to prior reporting periods, compared to $1.9 million, or 0.08% of non-bonus payroll costs in the 2013 period. Please read Note 2 to the Consolidated Financial Statements, "Accounting Policies – Workers' Compensation Costs," for a discussion of our accounting for workers' compensation costs.

- Payroll tax costs – Payroll taxes increased 4.0%, or $10 per worksite employee per month, compared to the third quarter of 2013, primarily due to the 3.9% increase in payroll costs. Payroll taxes as a percentage of payroll cost were 6.3% in both the 2014 and the 2013 periods.

Operating Expenses

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

	Three Months Ended September 30,				Three Months Ended September 30,			
	2014	2013	% Change		2014	2013	% Change	
	(in thousands)				(per worksite employee per month)			
Salaries, wages and payroll taxes	$49,384	$43,797	12.8	%	$125	$113	10.6	%
Stock-based compensation	2,701	2,749	(1.7	)%	7	7	—	
Commissions	3,790	3,609	5.0	%	10	9	11.1	%
Advertising	4,885	4,273	14.3	%	12	11	9.1	%
General and administrative expenses	20,295	20,567	(1.3	)%	51	53	(3.8	)%
Depreciation and amortization	5,302	5,302	—		13	14	(7.1	)%
Total operating expenses	$86,357	$80,297	7.5	%	$218	$207	5.3	%

Operating expenses increased 7.5% to $86.4 million compared to $80.3 million in the third quarter of 2013. Operating expenses per worksite employee per month increased to $218 in the 2014 period from $207 in the 2013 period. The components of operating expenses changed as follows:

- Salaries, wages and payroll taxes of corporate and sales staff increased 12.8%, or $12 per worksite employee per month, compared to the 2013 period. This increase was primarily due to higher incentive compensation accruals and a 1.3% rise in headcount.

- Stock-based compensation decreased 1.7%, but remained flat on a per worksite employee per month basis compared to the 2013 period. Stock-based compensation expense represents amortization of restricted stock awards granted to employees.

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- Commissions expense increased 5.0%, or $1 per worksite employee per month, compared to the 2013 period, primarily due to commissions associated with our Strategic Businesses.

- Advertising costs increased 14.3%, or $1 per worksite employee per month, compared to the 2013 period, primarily due to changes in the timing of television advertising spend.

- General and administrative expenses decreased 1.3%, or $2 per worksite employee per month, compared to the 2013 period.

Income Tax Expense

Our effective income tax rate was 42.2% in the 2014 period compared to 41.2% in the 2013 period. Our provision for income taxes differed from the U.S. statutory rate of 35% primarily due to state income taxes and non-deductible expenses.

Operating and Net Income

Operating and net income per worksite employee per month was $37 and $21 in the 2014 period, versus $44 and $26 in the 2013 period.

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Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013.

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

	Nine Months Ended September 30,			
	2014		2013	% Change
	(in thousands, except per share and statistical data)			
Revenues (gross billings of $10.231 billion and $9.736 billion, less worksite employee payroll cost of $8.469 billion and $8.037 billion, respectively)	$1,761,923		$1,698,979	3.7 %
Gross profit	302,446		303,273	(0.3)%
Operating expenses	267,981	(1)	253,924	5.5 %
Operating income	34,465		49,349	(30.2)%
Other income (expense)	100		(2,513) (2)	(104.0)%
Net income	19,840		26,743	(25.8)%
Diluted net income per share of common stock	0.78		1.04	(25.0)%
Statistical Data:				
Average number of worksite employees paid per month	128,703		126,445	1.8 %
Revenues per worksite employee per month[3]	$1,521		$1,493	1.9 %
Gross profit per worksite employee per month	261		266	(1.9)%
Operating expenses per worksite employee per month	231		223	3.6 %
Operating income per worksite employee per month	30		43	(30.2)%
Net income per worksite employee per month	17		23	(26.1)%

(1) Includes a non-cash impairment charge of $2.5 million, or $0.06 per share in the second quarter of 2014. Please read Note 4 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information.

(2) Includes the impact of a $2.7 million, or $0.10 per share, non-cash impairment charge in the second quarter of 2013. Please read Note 5 to the Consolidated Financial Statements, "Other Assets," for additional information.

(3) Gross billings of $8,832 and $8,555 per worksite employee per month, less payroll cost of $7,311 and $7,062 per worksite employee per month, respectively.

Revenues

Our revenues for the nine months ended September 30, 2014 increased 3.7% over the 2013 period, primarily due to a 1.8% increase in the average number of worksite employees paid per month and a 1.9%, or $28, increase in revenues per worksite employee per month.

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We provide our Workforce Optimization solution to small and medium-sized businesses in strategically selected markets throughout the United States. By region, our Workforce Optimization revenue change from the first nine months of 2013 and distribution for the nine months ended September 30, 2014 and 2013 were as follows:

	Nine Months Ended September 30,			Nine Months Ended September 30,	
	2014	2013	% Change	2014	2013
	(in thousands)			(% of total revenue)	
Northeast	$451,505	$439,351	2.8 %	26.1 %	26.3 %
Southeast	169,472	158,976	6.6 %	9.8 %	9.5 %
Central	249,497	247,078	1.0 %	14.4 %	14.8 %
Southwest	471,218	459,740	2.5 %	27.2 %	27.5 %
West	389,642	367,829	5.9 %	22.5 %	21.9 %
	1,731,334	1,672,974	3.5 %	100.0 %	100.0 %
Other revenue[1]	30,589	26,005	17.6 %		
Total revenue	$1,761,923	$1,698,979	3.7 %		

[1] Comprised primarily of revenues generated by Strategic Business Units.

The percentage of total Workforce Optimization revenues in our significant markets include the following:

	Nine Months Ended September 30,	
	2014	2013
Texas	25.2 %	25.5 %
California	17.8 %	17.5 %
New York	9.8 %	9.6 %
Other	47.2 %	47.4 %
Total	100.0 %	100.0 %

Our Workforce Optimization growth rate is affected by three primary sources – worksite employees paid from new client sales, client retention and the net change in existing clients through worksite employee new hires and layoffs. During the first nine months of 2014, we saw improvement in worksite employees paid from new client sales, while the net change in existing clients and client retention remained consistent with the first nine months of 2013.

Gross Profit

Gross profit for the first nine months of 2014 decreased 0.3% compared to the first nine months of 2013 to $302.4 million. The average gross profit per worksite employee decreased 1.9% to $261 per month in the 2014 period from $266 per month in the 2013 period. Included in gross profit in 2014 is a $16 per worksite employee per month contribution from our Strategic Businesses compared to $14 per worksite employee per month in the 2013 period.

Our pricing objectives attempt to maintain or improve the gross profit per worksite employee by increasing revenue per worksite employee to match or exceed changes in primary direct costs and operating expenses. Our revenues during the first nine months of 2014 increased 1.9% per worksite employee per month as compared to the first nine months of 2013. However, our direct costs, which primarily include payroll taxes, benefits and workers' compensation expenses, increased 2.7% to $1,260 per worksite employee per month compared to $1,227 in the first nine months of 2013. The primary direct cost components changed as follows:

- Benefits costs – The cost of group health insurance and related employee benefits increased $21 per worksite employee per month, or 3.8% on a cost per covered employee basis, compared to the first nine months of 2013. Our benefits costs incurred in the first nine months of 2014 included costs of $2.4 million, or $2 per worksite employee per month, for changes in estimated run-off related to 2013. Included in 2013 benefits costs is a reduction of $3.4 million, or $3 per

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worksite employee per month, for lower than expected claim costs and premium taxes related to prior periods. In addition, $8.5 million, or $7 per worksite employee per month, of additional taxes were included in the 2014 period, primarily due to new health care reform requirements. The percentage of worksite employees covered under our health insurance plans was 71.7% in the 2014 period compared to 72.1% in the 2013 period. Please read Note 2 to the Consolidated Financial Statements, "Accounting Policies – Health Insurance Costs," for a discussion of our accounting for health insurance costs.

- Workers' compensation costs – Workers' compensation costs increased $7 per worksite employee per month, or 22.6%, compared to the first nine months of 2013. As a percentage of non-bonus payroll cost, workers' compensation costs were 0.65% in the 2014 period compared to 0.54% in the 2013 period. During the 2014 period, we recorded reductions in workers' compensation costs of $3.0 million, or 0.04% of non-bonus payroll costs, for changes in estimated losses related to prior reporting periods, compared to $8.3 million, or 0.11% of non-bonus payroll costs, in the 2013 period. Please read Note 2 to the Consolidated Financial Statements, "Accounting Policies – Workers' Compensation Costs," for a discussion of our accounting for workers' compensation costs.

- Payroll tax costs – Payroll taxes increased 2.7%, or $5 per worksite employee per month, compared to the first nine months of 2013, primarily due to the 5.4% increase in payroll costs offset by lower state unemployment tax rates. Payroll taxes as a percentage of payroll cost were 7.4% in the 2014 period and 7.6% in the 2013 period.

Operating Expenses

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

	Nine Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
	(in thousands)			(per worksite employee per month)		
Salaries, wages and payroll taxes	$148,245	$137,697	7.7 %	$128	$121	5.8 %
Stock-based compensation	8,346	8,351	(0.1)%	7	7	—
Commissions	10,753	10,349	3.9 %	9	9	—
Advertising	18,182	19,243	(5.5)%	16	17	(5.9)%
General and administrative expenses	64,143	62,592	2.5 %	55	55	—
Impairment charge	2,485	—	100.0 %	2	—	100.0 %
Depreciation and amortization	15,827	15,692	0.9 %	14	14	—
Total operating expenses	$267,981	$253,924	5.5 %	$231	$223	3.6 %

Operating expenses increased 5.5% to $268.0 million compared to $253.9 million in the first nine months of 2013. We recorded impairment charges of $2.5 million in our Employment Screening reporting unit in the first nine months of 2014. Please read Note 4 to the Consolidated Financial Statements, "Goodwill and Other Intangible Assets," for additional information. Operating expenses per worksite employee per month increased to $231 in the 2014 period from $223 in the 2013 period. The components of operating expenses changed as follows:

- Salaries, wages and payroll taxes of corporate and sales staff increased 7.7%, or $7 per worksite employee per month, compared to the 2013 period. This increase was primarily due to higher incentive compensation accruals and a 3.1% rise in headcount.

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Stock-based compensation decreased 0.1%, but remained flat on a per worksite employee per month basis compared to the 2013 period. Stock-based compensation expense represents amortization of restricted stock awards granted to employees.

- Commissions expense increased 3.9%, but remained flat on a per worksite employee per month basis compared to the 2013 period, primarily due to commissions associated with our Strategic Businesses.

- Advertising costs decreased 5.5%, or $1 per worksite employee per month compared to the 2013 period, primarily due to reduced spending on radio and television advertising.

- General and administrative expenses increased 2.5%, but remained flat on a per worksite employee per month basis compared to the 2013 period.

- Depreciation and amortization expense increased 0.9%, but remained flat on a per worksite employee per month basis compared to the 2013 period.

Other Income (Expense)

Other expense decreased $2.6 million in the first nine months of 2014 compared to the first nine months of 2013, primarily due to the non-cash impairment charge related to our minority investment in The Receivables Exchange in 2013. Please read Note 5 to the Consolidated Financial Statements, “Other Assets,” for additional information.

Income Tax Expense

Our effective income tax rate was 42.6% in the 2014 period compared to 42.9% in the 2013 period. Our provision for income taxes differed from the U.S. statutory rate of 35% primarily due to state income taxes, non-deductible expenses, and the effects of the impairment charges recorded during the period. The effect of the non-cash impairment charges on the income tax rates was 0.3% in the 2014 period and 2.3% in the 2013 period.

Operating and Net Income

Operating and net income per worksite employee per month was $30 and $17 in the 2014 period, versus $43 and $23 in the 2013 period.

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.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
	(in thousands, except per worksite employee per month data)					
GAAP to non-GAAP reconciliation:						
Payroll cost (GAAP)	$2,801,722	$2,696,330	3.9 %	$8,468,804	$8,036,532	5.4 %
Less: Bonus payroll cost	204,405	192,868	6.0 %	947,751	706,795	34.1 %
Non-bonus payroll cost	$2,597,317	$2,503,462	3.7 %	$7,521,053	$7,329,737	2.6 %
Payroll cost per worksite employee per month (GAAP)	$7,099	$6,954	2.1 %	$7,311	$7,062	3.5 %

Less: Bonus payroll cost per worksite employee per month	518	498	4.0	%	818	621	31.7	%
Non-bonus payroll cost per worksite employee per month	$6,581	$6,456	1.9	%	$6,493	$6,441	0.8	%

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Liquidity and Capital Resources

We periodically evaluate our liquidity requirements, capital needs and availability of resources in view of, among other things, our expansion plans, potential acquisitions and other operating cash needs. To meet short-term liquidity requirements, which are primarily the payment of direct and operating expenses, we rely primarily on cash from operations. Longer-term projects or significant acquisitions may be financed with debt or equity. We have in the past sought, and may in the future seek, to raise additional capital or take other steps to increase or manage our liquidity and capital resources. We had $225.4 million in cash, cash equivalents and marketable securities at September 30, 2014, of which approximately $90.8 million was payable in early October 2014 for withheld federal and state income taxes, employment taxes and other payroll deductions, and approximately $18.3 million were customer prepayments that were payable in October 2014. At September 30, 2014, we had working capital of $119.1 million compared to $128.6 million at December 31, 2013. We currently believe that our cash on hand, marketable securities, cash flows from operations and availability under our credit facility will be adequate to meet our liquidity requirements for the remainder of 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 ("Facility") with a syndicate of financial institutions. The Facility is available for working capital and general corporate purposes, including acquisitions, and was undrawn at September 30, 2014. Please read Note 6 to the Consolidated Financial Statements, "Revolving Credit Facility," for additional information.

Cash Flows from Operating Activities

Net cash used in operating activities in 2014 was $1.0 million. Our primary source of cash from operations is the comprehensive service fee and payroll funding we collect from our clients. Our cash and cash equivalents, and thus our reported cash flows from operating activities are significantly impacted by various external and internal factors, which are reflected in part by the changes in our balance sheet accounts. These include the following:

- Timing of client payments / payroll levels – We typically collect our comprehensive service fee, along with the client's payroll funding, from clients at least one day prior to the payment of worksite employee payrolls and associated payroll taxes. Therefore, the last business day of a reporting period has a substantial impact on our reporting of operating cash flows. For example, many worksite employees are paid on Fridays; therefore, operating cash flows decrease in the reporting periods that end on a Friday or a Monday. In the period ended September 30, 2014, the last business day of the reporting period was a Tuesday, client prepayments were $18.3 million and accrued worksite employee payroll was $211.0 million. In the period ended September 30, 2013, the last business day of the reporting period was a Monday, client prepayments were $9.0 million and accrued worksite employee payroll was $184.1 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 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 $40.9 million in the first nine months of 2014 and $33.5 million in the first nine months of 2013. However, our estimate of workers' compensation loss costs was $37.7 million in the 2014 period and $29.7 million in the 2013 period, respectively. During the first nine months of 2014 and 2013, we paid the insurance carrier an additional $7.2 million and $5.0 million, respectively, in claim funds for prior policy years.

- Medical plan funding – Our health care contract with United establishes participant cash funding rates 90 days in advance of the beginning of a reporting quarter. Therefore, changes in the participation level of the United plan have a direct impact on our operating cash flows. In addition, changes to the funding rates, which are solely determined by United based primarily upon recent claim history and anticipated cost trends, also have a significant impact on our operating cash flows. At September 30, 2014, premiums owed and cash funded to United have exceeded Plan Costs, resulting in a $31.8 million surplus, $22.8 million of which is reflected as a current asset, and $9.0 million of which is reflected as a long-term asset on our Consolidated Balance Sheets. The premiums owed to United at September 30, 2014, were $22.7 million, which is included in accrued health insurance costs, a current liability, on our Consolidated Balance Sheets. Higher funding rates, as determined by United, resulted in a higher additional quarterly premium of $20.1 million at September 30, 2014 as compared to no additional quarterly premium at September 30, 2013.

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- Operating results – Our net income has a significant impact on our operating cash flows. Our net income decreased 25.8% to $19.8 million in the nine months ended September 30, 2014, compared to $26.7 million in the nine months ended September 30, 2013, due to higher operating expenses. Please read “Results of Operations – Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013.”

Cash Flows from Investing Activities

Net cash flows used in investing activities were $12.1 million for the nine months ended September 30, 2014, primarily due to property and equipment purchases of $11.0 million.

Cash Flows from Financing Activities

Net cash flows used in financing activities were $33.2 million for the nine months ended September 30, 2014, including $20.8 million in stock repurchases and $14.0 million in dividends paid.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are primarily exposed to market risks from fluctuations in interest rates and the effects of those fluctuations on the market values of our cash equivalent short-term investments and our available-for-sale marketable securities. In addition, borrowings under our Facility bear interest at a variable market rate. As of September 30, 2014, we had not drawn on the Facility. Please read Note 6 to the Consolidated Financial Statements, “Revolving Credit Facility,” for additional information. The cash equivalent short-term investments consist primarily of overnight investments, which are not significantly exposed to interest rate risk, except to the extent that changes in interest rates will ultimately affect the amount of interest income earned on these investments. The available-for-sale marketable securities are subject to interest rate risk because these securities generally include a fixed interest rate. As a result, the market values of these securities are affected by changes in prevailing interest rates.

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

ITEM 4. CONTROLS AND PROCEDURES.

In accordance with the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2014.

There has been no change in our internal controls over financial reporting that occurred during the three months ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS.

Please read Note 9 to the Consolidated Financial Statements, “Commitments and Contingencies,” which is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

Forward-Looking Statements

The statements contained herein that are not historical facts are forward-looking statements within the meaning of the federal securities laws (Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). You can identify such forward-looking statements by the words “expects,” “intends,” “plans,” “projects,” “believes,” “estimates,” “likely,” “possibly,” “probably,” “goal,” “opportunity,” “objective,” “target,” “assume,” “outlook,” “guidance,” “p
“indicator” and similar expressions. Forward-looking statements involve a number of risks and uncertainties. In the normal course of business, Insperity, Inc., in an effort to help keep our stockholders and the public informed about our operations, may from time to time issue such forward-looking statements, either orally or in writing. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, or projections involving anticipated revenues, earnings, unit growth, profit per worksite employee, pricing, operating expenses or other aspects of operating results. We base the forward-looking statements on our expectations, estimates and projections at the time such statements are made. These statements are not guarantees of future performance and involve risks and uncertainties that we cannot predict. In addition, we have based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Therefore, the actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: (i) adverse economic conditions; (ii) regulatory and tax developments and possible adverse application of various federal, state and local regulations; (iii) the ability to secure competitive replacement contracts for health insurance and workers’ compensation contracts at expiration of current contracts; (iv) increases in health insurance costs and workers’ compensation rates and underlying claims trends, health care reform, financial solvency of workers’ compensation carriers, other insurers or financial institutions, state and federal unemployment tax rates, liabilities for employee and client actions or payroll-related claims; (v) failure to manage growth of our operations and the effectiveness of our sales and marketing efforts; (vi) changes in the competitive environment in the PEO industry, including the entrance of new competitors and our ability to renew or replace client companies; (vii) our liability for worksite employee payroll, payroll taxes and benefits costs; (viii) our liability for disclosure of sensitive or private information; (ix) our ability to integrate or realize expected return on our acquisitions; (x) failure of our information technology systems; and (xi) an adverse final judgment or settlement of claims against Insperity. These factors are discussed in further detail in our 2013 Annual Report on Form 10-K under “Factors That May Affect Future Results and the Market Price of Common Stock” on page 17, and elsewhere in this report. Any of these factors, or a combination of such factors, could materially affect the results of our operations and whether forward-looking statements we make ultimately prove to be accurate.

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

The following table provides information about purchases by Insperity during the three months ended September 30, 2014, of equity securities that are registered by Insperity pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased[1][2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Announced Program[1]	Maximum Number of Shares Available for Purchase under Announced Program[1]
07/01/2014 – 07/31/2014	36,916	$31.98	36,786	928,885
08/01/2014 – 08/31/2014	160,120	30.28	160,120	768,765
09/01/2014 – 09/30/2014	—	—	—	768,765
Total	197,036	$30.60	196,906	768,765

(1) Our Board has approved a program to repurchase shares of our outstanding common stock. During the three months ended September 30, 2014, 196,906 shares were repurchased under the program and 130 shares were withheld to satisfy tax withholding obligations for the vesting of restricted stock awards. As of September 30, 2014, we were authorized to repurchase an additional 768,765 shares under the program. Unless terminated earlier by resolution of the Board, the repurchase program will expire when we have repurchased all shares authorized for repurchase under the repurchase program.

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

ITEM 6. EXHIBITS.

(a) List of Exhibits

10.1(+)	*	Letter Agreement, dated September 2, 2014, by and between Insperity Holdings, Inc. and UnitedHealthcare Insurance Company.
10.2(+)	*	Amendment to Minimum Premium Financial Agreement, as amended effective January 1, 2011, by and between Insperity Holdings, Inc. (fka Administaff of Texas, Inc.) and UnitedHealthcare Insurance Company, effective as of January 1, 2013.
10.3(+)	*	Amendment to Minimum Premium Administrative Services Agreement, as amended effective January 1, 2011, by and between Insperity Holdings, Inc. (fka Administaff of Texas, Inc.) and UnitedHealthcare Insurance Company, effective as of January 1, 2013.
31.1	*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	*	XBRL Instance Document.[1]
101.SCH	*	XBRL Taxonomy Extension Schema Document.
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	*	XBRL Extension Definition Linkbase Document.
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document.

(+) Confidential treatment has been requested for this exhibit and confidential portions have been filed with the Securities and Exchange Commission.

* Filed with this report.

** Furnished with this report.

(1) Attached as exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations for the three and nine month periods ended September 30, 2014 and 2013; (ii) the Consolidated Statements of Comprehensive Income for the three and nine month periods ended September 30, 2014 and 2013; (iii) the Consolidated Balance Sheets at September 30, 2014 and December 31, 2013; (iv) the Consolidated Statement of Stockholders' Equity for the nine month period ended September 30, 2014; (v) the Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2014 and 2013; and (vi) Notes to the Consolidated Financial Statements.

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SIGNATURES

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

Insperity, Inc.

Date: November 3, 2014

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