H&Q LIFE SCIENCES INVESTORS
Form N-Q
March 02, 2009

UNITED STATES **SECURITIES AND EXCHANGE COMMISSION** **Washington, D.C. 20549**	OMB APPROVAL OMB Number: 3235-0578 Expires: April 30, 2010 Estimated average burden hours per response........10.5

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-06565

H&Q Life Sciences Investors
(Exact name of registrant as specified in charter)

2 Liberty Square, 9th Floor, Boston, MA 02109
(Address of principal executive offices) (Zip code)

(Name and address of agent for service)

Registrant s telephone number, including area code: 617-772-8500

Date of fiscal year end: September 30

Date of reporting period: 12/31/08

Item 1. Schedule of Investments.

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2008

(Unaudited)

SHARES			VALUE
	CONVERTIBLE SECURITIES AND WARRANTS 11.3% of Net Assets		
	Convertible Preferred (Restricted)(a) 11.3%		
	Drug Discovery Technologies 1.4%		
1,587,302	Agilix Corporation Series B (b) (c)	$	94,540
250,000	Ceres, Inc. Series C (b)		1,625,000
21,462	Ceres, Inc. Series C-1 (b)		139,503
175,540	Ceres, Inc. Series D (b)		1,141,010
28,385	Ceres, Inc. Series F (b)		184,502
5,677	Ceres, Inc. warrants (expiration 9/05/15) (b)		0
200,000	Zyomyx, Inc. Series A New (b)		20,000
200	Zyomyx, Inc. Series B New (b)		20
	Emerging Biopharmaceuticals 0.7%		
204,275	MacroGenics, Inc. Series D (b)		133,208
50,145	MacroGenics, Inc. Series D (b)		21,798
1,415,385	TargeGen, Inc. Series C (b)		1,226,672
407,825	TargeGen, Inc. Series D (b)		353,450
	Healthcare Services 1.5%		
3,589,744	PHT Corporation Series D (b) (c)		2,800,000
802,996	PHT Corporation Series E (b) (c)		626,337
99,455	PHT Corporation Series F (b) (c)		77,575
	Medical Devices and Diagnostics 7.7%		
2,379,916	CardioKinetix, Inc. Series C (b) (c)		1,640,000
3,235,293	Concentric Medical, Inc. Series B (b) (c)		3,235,293
1,162,790	Concentric Medical, Inc. Series C (b) (c)		1,162,790
455,333	Concentric Medical, Inc. Series D (b) (c)		455,333
453,094	Concentric Medical, Inc. Series E (b) (c)		453,094
1,198,193	Elemé Medical, Inc. Series C (b)		1,803,999
177,778	EPR, Inc. Series A (b)		1,778
1,592,852	FlowCardia, Inc. Series C (b)		1,708,334
2,446,016	Labcyte Inc. Series C (b)		1,280,000
2,050,000	Magellan Biosciences, Inc. Series A (b)		2,050,000
1,031,992	OmniSonics Medical Technologies, Inc. Series A-1 (b)		237,358
877,747	OmniSonics Medical Technologies, Inc. Series B-1 (b)		201,882
43,478	TherOx, Inc. Series H (b)		277,390
99,646	TherOx, Inc. Series I (b)		635,741
2,813	TherOx, Inc. warrants (expiration 1/26/10) (b)		0
5,427	TherOx, Inc. warrants (expiration 6/09/09) (b)		0
640,625	Xoft, Inc. Series D (b)		2,139,688
122,754	Xoft, Inc. Series E (b)		409,998
		$	26,136,293

PRINCIPAL AMOUNT			VALUE	
		Convertible Notes 0.0%		
		Drug Discovery Technologies 0.0%		
$	700,000	deCODE Genetics, Inc., 3.50% due 2011	$	73,500
		TOTAL CONVERTIBLE SECURITIES AND WARRANTS (Cost $32,240,552)	$	**26,209,793**

SHARES		
	COMMON STOCKS AND WARRANTS 75.5%	
	Biopharmaceuticals 37.0%	
135,182	Affymax, Inc. (b)	1,350,468
624,321	Akorn, Inc. (b)	1,435,938
108,889	Akorn, Inc. warrants (expiration 3/08/11) (a) (b)	15,244
114,554	Alexion Pharmaceuticals, Inc. (b)	4,145,709
52,700	Alnylam Pharmaceuticals, Inc. (b)	1,303,271
187,207	Amgen Inc. (b)	10,811,204
55,000	Amylin Pharmaceuticals, Inc. (b)	596,750
525,965	Antisoma Plc (b) (d)	177,709
3,062,745	Antisoma Plc 12 Month Lock-up (Restricted) (a) (b) (d)	879,592
340,305	Antisoma Plc 18 Month Lock-up (Restricted) (a) (b) (d)	91,983
161,180	Biogen Idec Inc. (b)	7,677,003
75,627	Cornerstone Therapeutics, Inc. (b)	200,412
15,967	Cornerstone Therapeutics, Inc. warrants (expiration 6/06/10) (a) (b)	0
88,550	Forest Laboratories, Inc. (b)	2,255,368
89,270	Genentech, Inc. (b)	7,401,376
146,357	Genzyme Corporation (b)	9,713,714
329,960	Gilead Sciences, Inc. (b)	16,874,154
182,994	Hologic, Inc. (b)	2,391,732
8,815	Intuitive Surgical, Inc. (b)	1,119,417
172,247	Martek Biosciences Corporation	5,220,807
175,880	MiddleBrook Pharmaceuticals, Inc. warrants (expiration 4/29/10) (a) (b)	91,458
64,295	Myriad Genetics, Inc. (b) (f)	4,260,187
157,500	Vertex Pharmaceuticals Inc. (b) (f)	4,784,850
102,371	XenoPort, Inc. (b)	2,567,465
		85,365,811
	Biotechnology 1.3%	
328,000	Athersys, Inc. (b)	147,633
82,000	Athersys, Inc. warrants (expiration 6/08/12) (a) (b)	0
125,392	Life Technologies Corporation (b)	2,922,887
		3,070,520
	Drug Delivery 1.0%	
227,550	Alkermes, Inc. (b)	2,423,408
	Drug Discovery Technologies 9.6%	
162,288	Avalon Pharmaceuticals, Inc. (b)	47,226
212,720	Celgene Corporation (b)	11,759,161

SHARES		VALUE
	Drug Discovery Technologies continued	
26,931	Cephalon, Inc. (b)	$ 2,074,764
45,174	Cougar Biotechnology, Inc. (b)	1,174,524
1,601,039	MZT Holdings, Inc. (b) (c)	43,228
1,846,154	MZT Holdings, Inc. warrants (expiration 1/17/11) (a) (b) (c)	0
952,381	MZT Holdings, Inc. warrants (expiration 1/22/12) (a) (b) (c)	0
78,600	OSI Pharmaceuticals, Inc. (b)	3,069,330
399,028	Penwest Pharmaceuticals Co. (b)	626,474
199,514	Penwest Pharmaceuticals Co. warrants (expiration 3/11/13) (a) (b)	111,728
50,500	United Therapeutics Corporation (b)	3,158,775
200,000	Zyomyx, Inc. (Restricted) (a) (b)	2,000
		22,067,210
	Emerging Biopharmaceuticals 1.7%	
430,995	ACADIA Pharmaceuticals Inc. (b)	387,895
90,552	DOV Pharmaceutical, Inc. warrants (expiration 12/31/09) (a) (b)	0
448,680	Exelixis, Inc. (b)	2,252,374
774,191	Lexicon Pharmaceuticals, Inc. (b)	1,083,867
242,522	NitroMed, Inc. (b)	87,308
		3,811,444
	Generic Pharmaceuticals 7.1%	
100,381	Illumina, Inc. (b)	2,614,925
245,150	Mylan Inc. (b)	2,424,533
82,719	Perrigo Company	2,672,651
200,768	Teva Pharmaceutical Industries, Ltd. (e)	8,546,694
		16,258,803
	Healthcare Services 9.6%	
47,300	Aetna Inc.	1,348,050
148,148	Aveta, Inc. (Restricted) (a) (b)	1,481,480
347,628	CardioNet, Inc. (b)	8,569,030
93,740	Catalyst Health Solutions, Inc. (b)	2,282,569
96,048	ICON Plc (b) (e)	1,891,185
77,815	Medco Health Solutions, Inc. (b)	3,261,227
204,139	Syntiro Healthcare Services (Restricted) (a) (b)	204
40,350	WellPoint, Inc. (b)	1,699,946
1,285,000	Zix Corporation (b)	1,529,150
		22,062,841
	Medical Devices and Diagnostics 8.2%	
257,790	Align Technology, Inc. (b)	2,255,663
440,141	Electro-Optical Sciences, Inc. (b)	1,474,472
105,892	IDEXX Laboratories, Inc. (b)	3,820,583
155,693	Inverness Medical Innovations, Inc. (b)	2,944,155
37,750	Laboratory Corporation of America Holdings (b)	2,431,477
62,080	Masimo Corporation (b)	1,851,846
130,000	Masimo Laboratories, Inc. (Restricted) (a) (b)	45,874

SHARES			VALUE
	Medical Devices and Diagnostics continued		
447,080	Medwave, Inc. (b)	$	224
111,770	Medwave, Inc. warrants (expiration 8/21/11) (a) (b)		0
62,005	OmniSonics Medical Technologies, Inc. (Restricted) (a) (b)		620
87,200	PerkinElmer, Inc.		1,212,952
139	Songbird Hearing, Inc. (Restricted) (a) (b)		93
73,925	Stryker Corporation		2,953,304
			18,991,263
	TOTAL COMMON STOCKS AND WARRANTS (Cost $205,999,676)	**$**	**174,051,300**

PRINCIPAL AMOUNT			
	SHORT-TERM INVESTMENTS 11.6%		
$ 5,264,000	American Express Corporation; 0.01% due 01/02/09		5,263,999
21,425,000	Repurchase Agreement, State Street Bank and Trust Co., repurchase value $21,425,012 (collateralized by U.S. Treasury Bill 0.26% discount, 07/02/09, market value $21,856,550); 0.01% due 01/02/09		21,425,000
	TOTAL SHORT-TERM INVESTMENTS (Cost $26,688,999)	**$**	**26,688,999**
	TOTAL INVESTMENTS 98.4% (Cost $264,929,227)	$	226,950,092
	OTHER ASSETS IN EXCESS OF LIABILITIES 1.6%		3,583,842
	NET ASSETS - 100%	$	**230,533,934**

(a) Security fair valued.
(b) Non-income producing security.
(c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of $10,588,190).
(d) Foreign security.
(e) American Depository Receipt.
(f) A portion of security is pledged as collateral for call options written.

SCHEDULE OF WRITTEN OPTIONS

NUMBER OF CONTRACTS (100 SHARES EACH)		EXPIRATION DATE		CURRENT VALUE
	CALL OPTIONS WRITTEN			
61	Myriad Genetics, Inc., strike @ 70	Feb - 2009	$	(20,557)
205	Vertex Pharmaceuticals, Inc., strike @ 35	Feb - 2009		(27,060)
	TOTAL CALL OPTIONS WRITTEN (Premiums received $47,617)		$	(47,617)

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

DECEMBER 31, 2008

(Unaudited)

(Continued)

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), effective October 1, 2008. In accordance with FAS 157, fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market for the investment. FAS 157 established a three-tier hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets (Level I inputs) and the lowest priority to unobservable inputs (Level 3 inputs) when market prices are not readily available or reliable. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability and may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity s own assumptions about the factors market participants would use in pricing the asset or liability, and would be based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 quoted prices in active markets for identical investments
- Level 2 prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 prices determined using significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Fund s investments carried at value:

Valuation Inputs		**Investments in Securities**
Level 1 - Quoted Prices in Active Markets	$	198,020,023
Level 2 - Other Significant Observable Inputs		73,500
Level 3 - Significant Unobservable Inputs		28,856,569
Balance as of December 31, 2008	**$**	**226,950,092**

Securities valuation policies and other investment related disclosures are hereby incorporated by reference to the Fund s most recent annual report previously filed with the Securities and Exchange Commission on Form N-CSR.

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining value:

Valuation Inputs		**Investments in Securities**
Balance as of 09/30/08	$	39,920,954
Accrued discounts/premiums		
Realized gain/loss and change in unrealized appreciation/depreciation		(3,236,618)
Net purchases/sales		(18,654)
Net transfers in and/or out of Level 3		(7,809,113)
Balance, as of 12/31/08	$	28,856,569
Net change in unrealized appreciation/depreciation from investments still held as of 12/31/08	**$**	**(3,177,271)**

Investment Valuation - Investments traded on national securities exchanges or in the over-the-counter market that are National Market System securities are valued at the last sale price or, lacking any sales, at the mean between the last bid and asked prices. Other over-the-counter securities are valued at the most recent bid prices as obtained from one or more dealers that make markets in the securities. Publicly traded investments for which market quotations are not readily available or whose quoted price may otherwise not reflect fair value and the fair value of venture capital and other restricted securities are valued in good faith by the Adviser pursuant to valuation policies and procedures approved by the Trustees. Such values are subject to oversight and ratification by the Trustees. However, because of the uncertainty of fair valuations, these estimated values may differ significantly from the values that would have been used had a ready market for these securities existed, and the differences could be material. Each such fair value determination is based on a consideration of relevant factors. Factors the Adviser considers may include (i) the existence of any contractual restrictions on the disposition of securities; (ii) information obtained from the issuer which may include an analysis of the company s financial statements, the company s products or intended markets or the company s technologies; and (iii) the price of a security negotiated at arm s length in an issuer s completed subsequent round of financing. Short-term investments with maturity of 60 days or less are valued at amortized cost.

Venture Capital and Other Restricted Securities - The Fund may invest in venture capital and other restricted securities if these securities would currently comprise 40% or less of net assets. The value of these securities represents 12% of the Fund s net assets at December 31, 2008. The following table details the acquisition date, cost, carrying value per unit, and value of the Fund s venture capital and other restricted securities at December 31, 2008. The Fund on its own does not have the right to demand that such securities be registered.

Security (g)	Acquisition Date	Cost	Carrying Value per Unit	Value
Agilix Corporation				
Series B Cvt. Pfd.	11/8/01	$ 1,663,667	$ 0.06	$ 94,540
Antisoma Plc. (h)				
12 Month Lock-up Restricted Common	12/5/03 - 6/11/08	3,197,176	0.29	879,592
18 Month Lock-up Restricted Common	12/5/03 - 6/11/08	355,242	0.27	91,983
Aveta, Inc.				
Restricted Common	12/21/05	2,003,155	10.00	1,481,480
CardioKinetix, Inc.				
Series C Cvt. Pfd.	5/22/08	1,645,087	0.69	1,640,000
Ceres, Inc.				
Series C Cvt. Pfd.	12/23/98	1,000,950	6.50	1,625,000
Series C-1 Cvt. Pfd.	3/31/01	74,339	6.50	139,503
Series D Cvt. Pfd.	3/14/01	1,046,887	6.50	1,141,010
Series F Cvt. Pfd.	9/5/07	186,335	6.50	184,502
Warrants (expiration 9/05/15)	9/5/07	0	0.00	0
Concentric Medical, Inc.				
Series B Cvt. Pfd.	5/7/02, 1/24/03	2,220,659	1.00	3,235,293
Series C Cvt. Pfd.	12/19/03	1,000,545	1.00	1,162,790
Series D Cvt. Pfd.	9/30/05	638,671	1.00	455,333
Series E Cvt. Pfd.	12/18/08	454,477	1.00	453,094
Elemé Medical, Inc.				

fees, stock based compensation expenses, deferred income taxes, and adjustments to contingent purchase price liabilities. Cash used by discontinued operations was $0.3 million.

For the first quarter of 2010, cash used by operating activities was $7.9 million and was primarily due to changes in working capital of $30.1 million. The use of working capital cash was primarily a result of increased accounts receivable and the timing of payments on payables and personnel costs, offset partially by the increase in the tax liability based on the quarterly earnings. Offsetting these uses of cash for the first quarter of 2010 were net income of $16.0 million, a net loss on the sale of operations and discontinued operations transactions of $0.5 million, and non-cash adjustments to net income of approximately $6.7 million. The non-cash adjustments to net income primarily consist of depreciation and amortization expense, amortization of the convertible notes discount, amortization of deferred financing fees, stock based compensation expenses, and adjustments to contingent purchase price liabilities. Cash used by discontinued operations was $1.0 million.

Investing Activities

CBIZ s investing activities typically consist of: payments towards business acquisitions and contingent payments associated with prior acquisitions of businesses and client lists, payments on capital expenditures, and proceeds received from the sale of divestitures and discontinued operations. Capital expenditures primarily consisted of investments in technology, leasehold improvements and purchases of furniture and equipment.

CBIZ used $10.8 million and $26.1 million in net cash for investing activities during the first quarters of 2011 and 2010, respectively. Investing uses of cash during the first quarter of 2011 primarily consisted of $10.9 million in net cash used for contingent payments associated with prior acquisitions, $4.9 million used to purchase corporate bonds held in client funds and $0.5 million for capital expenditures. These uses of cash were partially offset by $5.1 million in proceeds from sales and maturities of investments held in client funds and $0.5 million in proceeds received from the sale of divested operations and client lists. Cash used by investing activities during the first quarter of 2010 primarily consisted of $26.0 million of net cash used towards business acquisitions and contingent payments associated with prior acquisitions and $0.9 million for capital expenditures, offset by $0.9 million in proceeds received from the sale of divested and discontinued operations.

Financing Activities

CBIZ s financing cash flows typically consist of net borrowing and payment activity from the credit facility, payment of contingent consideration included as part of the initial measurement of acquisitions, repurchases of CBIZ common stock, and proceeds from the exercise of stock options.

Net cash provided by financing activities during the first quarter of 2011 was $14.0 million compared to $30.1 million for the comparable period in 2010. Financing sources of cash during the first quarter of 2011 included $13.9 million in net proceeds from the credit facility and $0.7 million in proceeds from the exercise of stock options (including tax benefits), offset by $0.3 million in payments for contingent consideration included as part of the initial measurement of prior business acquisitions.

Financing sources of cash during the first quarter of 2010 included $29.5 million in net proceeds from the credit facility and $0.7 million in proceeds from the exercise of stock options (including tax benefits).

Table of Contents

Obligations and Commitments

CBIZ s aggregate amount of future obligations at March 31, 2011 for the next five years and thereafter is set forth below (in thousands):

	Total	2011(1)	2012	2013	2014	2015	Thereafter
Convertible notes (2)	$ 170,000	$ 40,000	$	$	$	$ 130,000	$
Interest on convertible notes	32,315	6,963	6,338	6,338	6,338	6,338	
Credit facility (3)	132,800				132,800		
Income taxes payable (4)	7,558	7,558					
Notes payable	236		236				
Contingent purchase price liabilities(5)	15,826	2,253	7,188	6,385			
Contingent purchase price obligations(6)	24,865	4,098	20,767				
Restructuring lease obligations (7)	9,991	1,684	2,181	1,592	1,201	1,239	2,094
Non-cancelable operating lease obligations (7)	151,217	25,668	30,366	24,978	18,169	15,620	36,416
Letters of credit in lieu of cash security deposits	2,816	1,386		45	250		1,135
Performance guarantees for non-consolidated affiliates	3,407	3,407					
License bonds and other letters of credit	1,588	1,081	496	10	1		
Total	$ 552,619	$ 94,098	$ 67,572	$ 39,348	$ 158,759	$ 153,197	$ 39,645

(1) Represents contractual obligations from April 1, 2011 to December 31, 2011.

(2) Represents $130 million par value of 2010 Notes which mature on October 1, 2015, and $40 million par value of 2006 Notes which mature on June 1, 2026. The 2006 Notes may be putable by the holders of the convertible notes on June 1, 2011 and can be redeemed by the Company anytime after June 6, 2011.

(3) Interest on the credit facility is not included as the amount is not determinable due to the revolving nature of the credit facility and the variability of the related interest rate.

(4) Does not reflect $4.9 million of unrecognized tax benefits, which the Company has accrued for uncertain tax positions, as CBIZ is unable to determine a reasonably reliable estimate of the timing of the future payments.

(5) Represents contingent earnout liability that is expected to be paid over the next three years to businesses CBIZ acquired on or after January 1, 2009.

(6) Represents an estimate of potential earnout payments to be made over the next two years to those businesses CBIZ acquired prior to January 1, 2009.

(7) Excludes cash expected to be received under subleases.

Off-Balance Sheet Arrangements

CBIZ maintains administrative service agreements with independent CPA firms (as described more fully in the Annual Report on Form 10-K for the year ended December 31, 2010), which qualify as variable interest entities. The accompanying consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact to CBIZ is not material to the financial condition, results of operations, or cash flows of CBIZ.

CBIZ provides guarantees of performance obligations for a CPA firm with which CBIZ maintains an administrative service agreement. Potential obligations under the guarantees totaled $3.4 million at March 31, 2011 and December 31, 2010. CBIZ has recognized a liability for the fair value of the obligations undertaken in issuing these guarantees. The liability is recorded as other current liabilities in the accompanying consolidated balance sheets. CBIZ does not expect it will be required to make payments under these guarantees.

CBIZ provides letters of credit to landlords (lessors) of its leased premises in lieu of cash security deposits, which totaled $2.8 million and $3.0 million at March 31, 2011 and December 31, 2010, respectively. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding at March 31, 2011 and December 31, 2010 totaled $1.6 million and $1.5 million, respectively.

Table of Contents

CBIZ has various agreements under which it may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations, warranties, covenants or agreements, related to matters such as title to assets sold and certain tax matters. Payment by CBIZ under such indemnification clauses are generally conditioned upon the other party making a claim. Such claims are typically subject to challenge by CBIZ and to dispute resolution procedures specified in the particular contract. Further, CBIZ s obligations under these agreements may be limited in terms of time and/or amount and, in some instances, CBIZ may have recourse against third parties for certain payments made by CBIZ. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of CBIZ s obligations and the unique facts of each particular agreement. Historically, CBIZ has not made any payments under these agreements that have been material individually or in the aggregate. As of March 31, 2011, CBIZ was not aware of any material obligations arising under indemnification agreements that would require payments.

Interest Rate Risk Management

CBIZ has periodically used interest rate swaps to manage interest rate risk exposure. The interest rate swaps effectively mitigate CBIZ s exposure to interest rate risk, primarily through converting portions of the floating rate debt under the credit facility to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. CBIZ s interest rate swaps expired in January 2011 and the Company had no swap arrangements under contract at March 31, 2011. Management will continue to evaluate the potential use of interest rate swaps as it deems appropriate under certain operating and market conditions. CBIZ does not enter into derivative instruments for trading or speculative purposes.

CBIZ carries $130.0 million in 2010 Notes bearing a fixed interest rate of 4.875% and $40.0 million in 2006 Notes bearing a fixed interest rate of 3.125%. The 2010 Notes mature on October 1, 2015 and may not be converted before July 31, 2015. The 2006 Notes mature on June 1, 2026 and have call protection such that they may not be redeemed until June 6, 2011 at the Company s option, or June 1, 2011 at the holders option. CBIZ believes the fixed nature of these borrowings mitigate its interest rate risk.

In connection with payroll services provided to clients, CBIZ collects funds from its clients accounts in advance of paying these client obligations. These funds held for clients are segregated and invested in accordance with the Company s investment policy, which requires all investments carry an investment grade rating. The interest income on these investments mitigates the interest rate risk for the borrowing costs of CBIZ s credit facility, as the rates on both the investments and the outstanding borrowings against the credit facility are based on market conditions.

Critical Accounting Policies

The SEC defines critical accounting policies as those that are most important to the portrayal of a company s financial condition and results and that require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. There have been no material changes to CBIZ s critical accounting policies from the information provided in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, under the heading Critical Accounting Policies in the Annual Report on Form 10-K for the year ended December 31, 2010.

Valuation of Goodwill

Goodwill impairment testing between annual testing dates may be required if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. A further description of assumptions used in the Company s annual impairment testing are

Table of Contents

provided in CBIZ s Annual Report on Form 10-K for the year ended December 31, 2010. There was no goodwill impairment during the year ended December 31, 2010 or during the three months ended March 31, 2011.

CBIZ reviewed the significant assumptions that it used in its goodwill impairment analysis to determine if it was more likely than not that the fair value of each reporting unit was less than its carrying value. The analyses focused on management s current expectations of future cash flows, as well as current market conditions that impact various economic indicators that are utilized in assessing fair value. Based on these analyses and the lack of any other evidence or significant event, it was determined that the Company did not have any triggering events requiring it to perform a goodwill assessment during the three months ended March 31, 2011.

New Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-29 (ASU 2010-29) Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations , which amends Accounting Standards Codification (ASC) 805 by requiring disclosure of pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations in which the acquisition date is on or after the first day of the annual period beginning on or after December 15, 2010. The adoption of ASU 2010-29 will result in the Company providing additional annual pro forma disclosures for significant business combinations that occur subsequent to December 31, 2010.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06), which adds disclosure requirements about transfers in and out of Levels 1 and 2, for activity relating to Level 3 measurements, and clarifies input and valuation techniques. ASU 2010-06 was effective for the first reporting period beginning after December 15, 2009, except as it pertained to the requirement to provide the Level 3 activity for purchases, sales, issuances and settlements on a gross basis. The Level 3 requirement is effective for fiscal years beginning after December 15, 2010. CBIZ has adopted all the provisions of ASU 2010-06 and the adoption did not have a material impact on CBIZ s consolidated financial statements.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Quarterly Report, including without limitation, Management s Discussion and Analysis of Financial Condition and Results of Operations regarding CBIZ s financial position, business strategy and plans and objectives for future performance are forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are commonly identified by the use of such terms and phrases as intends, believes, estimates, expects, projects, anticipates, foreseeab seeks, and words or phrases of similar import in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated services, sales efforts, expenses, and financial results. From time to time, the Company also may provide oral or written forward-looking statements in other materials the Company releases to the public. Any or all of the Company s forward-looking statements in this Quarterly Report on Form 10-Q and in any other public statements that the Company makes, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Such forward-looking statements can be affected by inaccurate assumptions the Company might make or by known or unknown risks and uncertainties. Should one or more of these risks or assumptions materialize, or should the underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Such risks and uncertainties include, but are not limited to: CBIZ s ability to adequately manage its growth; CBIZ s dependence on the services of its CEO and other key employees; competitive pricing pressures; general business and economic conditions; changes in governmental regulation and tax laws affecting its operations; reversal or decline in the current trend of outsourcing business services; revenue seasonality or fluctuations in and collectability of receivables; liability for errors and omissions of the Company s businesses; regulatory investigations and future regulatory activity (including without limitation inquiries into compensation arrangements within the insurance brokerage industry); and reliance on information processing systems and availability of software licenses. Consequently, no forward-looking statement can be guaranteed.

A more detailed description of risk factors may be found in CBIZ s Annual Report on Form 10-K for the year ended December 31, 2010. Except as required by the federal securities laws, CBIZ undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures the Company makes on related subjects in its filings with the SEC, such as quarterly, periodic and annual reports.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

CBIZ s floating rate debt under its credit facility exposes the Company to interest rate risk. Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. A change in the Federal Funds Rate, or the reference rate set by Bank of America, N.A., would affect the rate at which CBIZ could borrow funds under its credit facility. CBIZ s balance outstanding under its credit facility at March 31, 2011 was $132.8 million. If market rates were to increase or decrease 100 basis points from the levels at March 31, 2011, interest expense would increase or decrease approximately $1.3 million annually.

CBIZ does not engage in trading market risk sensitive instruments. CBIZ has used interest rate swaps to manage interest rate risk exposure in the past and had two swap arrangements expire in January 2011. CBIZ had no swap arrangements under contract at March 31, 2011, but management will continue to evaluate the potential use of interest rate swaps as it deems appropriate under certain operating and market conditions.

In connection with CBIZ s payroll business, funds held for clients are segregated and invested in short-term investments, including auction rate securities and corporate bonds. In accordance with the Company s investment policy, all investments carry an investment grade rating. At each respective balance sheet date, these investments are adjusted to fair value with fair value adjustments being recorded to other comprehensive income or loss for the respective period. If an investment is deemed to be other-than-temporarily impaired due to credit loss, then the adjustment is recorded to Other income (expense), net on the consolidated statements of operations. See Notes 7 and 8 to the accompanying consolidated financial statements for further discussion regarding these investments and the related fair value assessments.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management has evaluated the effectiveness of the Company s disclosure controls and procedures (Disclosure Controls) as of the end of the period covered by this report. This evaluation (Controls Evaluation) was done with the participation of CBIZ s Chairman and Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Disclosure Controls are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the Company in the reports that CBIZ files or submits under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure Controls include, without limitation, controls and procedures designed to ensure that information required to

Table of Contents

be disclosed by CBIZ in the reports that it files under the Exchange Act is accumulated and communicated to management, including the CEO and CFO as appropriate, to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls

Management, including the Company s CEO and CFO, does not expect that its Disclosure Controls or its internal control over financial reporting (Internal Controls) will prevent all error and all fraud. Although CBIZ s Disclosure Controls are designed to provide reasonable assurance of achieving their objective, a control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within CBIZ have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of a control. A design of a control system is also based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Conclusions

The Company s Disclosure Controls are designed to provide reasonable assurance of achieving their objectives and, based upon the Controls Evaluation, the Company s CEO and CFO have concluded that as of the end of the period covered by this report, CBIZ s Disclosure Controls were effective at that reasonable assurance level.

(b) Internal Control over Financial Reporting

There was no change in the Company s Internal Controls that occurred during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, CBIZ s Internal Controls.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In May, June, July, August and September of 2010, the Company and its subsidiary, CBIZ MHM, LLC (fka CBIZ Accounting, Tax & Advisory Services, LLC) (the CBIZ Parties), were named as defendants in lawsuits filed in the United States District Court for the District of Arizona (Robert Facciola, et al v. Greenberg Traurig LLP, et al.) and in the Superior Court for Maricopa County Arizona (Victims Recovery, LLC v. Greenberg Traurig LLP, et al.; Roger Ashkenazi, et al v. Greenberg Traurig LLP, et al.; Mary Marsh, et al v. Greenberg Traurig LLP, et al.; and ML Liquidating Trust v. Mayer Hoffman McCann, PC, et al.), respectively. The Maricopa County cases were removed to the United States District Court or Bankruptcy Court but have since been remanded to the Superior Court for Maricopa County. These remand orders are currently being appealed. The Facciola plaintiffs seek to proceed as a class action. Additionally, in November 2009, CBIZ MHM, LLC was named as a defendant in the United States District Court for the District of Arizona (Jeffery C. Stone v. Greenberg Traurig LLP, et al.). These matters arise out of the bankruptcy proceedings related to Mortgages Ltd., a mortgage lender to developers in the Phoenix, Arizona area. Various other professional firms not related to the Company are also defendants in these lawsuits. The motion phase of these proceedings has commenced.

The plaintiffs, except for those in the Stone and ML Liquidating Trust cases, are all alleged to have directly or indirectly invested in real estate mortgages through Mortgages Ltd. The Facciola, Victims Recovery, Ashkenazi and Marsh plaintiffs seek monetary damages equivalent to the amounts of their investments. The plaintiff in Stone sought monies it allegedly lost based on the claim that Mortgages Ltd. did not fund development projects in which it was a contractor. The Stone case has been voluntarily dismissed by the plaintiff in that matter. The plaintiff in the ML Liquidating Trust matter asserts errors and omissions and breach of contract claims, and is seeking monetary damages. The plaintiffs in these suits also seek pre- and post-judgment interest, punitive damages and attorneys fees.

Mortgages Ltd. had been audited by Mayer Hoffman McCann PC, a CPA firm which has an administrative services agreement with CBIZ. The claims against the CBIZ Parties seek to impose auditor-type liabilities upon the Company for audits it did not conduct. Specific claims include securities fraud, common law fraud, negligent misrepresentation, Arizona Investment Management Act violations, control-person liability, aiding and abetting and conspiracy. CBIZ is not a CPA firm, does not provide audits, and did not audit any of the entities at issue in these lawsuits.

The CBIZ Parties deny all allegations of wrongdoing made against them in these actions and are vigorously defending the proceedings. The Company has been advised by Mayer Hoffman McCann PC that it denies all allegations of wrongdoing made against it and that it intends to continue vigorously defending the matters. Although the proceedings are subject to uncertainties inherent in the litigation process and the ultimate disposition of these proceedings is not presently determinable, management believes that the allegations are without merit and that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition, results of operations or cash flows of CBIZ.

In addition to those items disclosed above, CBIZ is, from time to time, subject to claims and suits arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the consolidated financial condition, results of operations or cash flows of CBIZ.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010. These risks could materially and adversely affect our business, financial condition and results of operations.

Table of Contents

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

(c) Periodically, CBIZ s Board of Directors authorizes a Share Repurchase Plan which allows the Company to purchase shares of its common stock in the open market or in a privately negotiated transaction according to SEC rules. On February 10, 2011 and February 11, 2010, CBIZ s Board of Directors authorized Share Repurchase Plans, each of which authorized the purchase of up to 5.0 million shares of CBIZ common stock. Each Share Repurchase Plan is effective beginning April 1 of the respective plan year, and each expires one year from the respective effective date. The repurchase plans do not obligate CBIZ to acquire any specific number of shares and may be suspended at any time. There were no share repurchases made during the first quarter of 2011.

According to the terms of CBIZ s credit facility, CBIZ is not permitted to declare or make any dividend payments, other than dividend payments made by one of its wholly owned subsidiaries to the parent company. See Note 8 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2010 for a description of working capital restrictions and limitations upon the payment of dividends.

Item 6. Exhibits

10.1	Second Amendment to the Credit Agreement, dated as of April 11, 011, by and among CBIZ, Inc. Bank of America, N.A., as administrative agent, and the other financial institutions from time to time party to the Credit Agreement (filed as Exhibit 10.1 to the Company s Report on Form 8-K, File No. 001-32961, dated April 13, 2011, and incorporated herein by reference).
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.

* Indicates documents filed herewith.

Table of Contents

SIGNATURE

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.

CBIZ, Inc.
(Registrant)

Date: May 10, 2011

By: /s/ Ware H. Grove
Ware H. Grove
Chief Financial Officer
Duly Authorized Officer and
Principal Financial Officer

38