CBIZ, Inc.
Form 10-Q
November 09, 2007

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

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 0-25890

CBIZ, INC.

(Exact name of registrant as specified in its charter)

Delaware	22-2769024
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6050 Oak Tree Boulevard, South, Suite 500, Cleveland, Ohio	44131
(Address of principal executive offices)	(Zip Code)

(Registrant s telephone number, including area code) 216-447-9000

(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 proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class of Common Stock	Outstanding at October 31, 2007
Common Stock, par value $0.01 per share	64,997,405

CBIZ, INC. AND SUBSIDIARIES
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands)

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,534	$ 12,971
Restricted cash	16,888	17,507
Accounts receivable, net	121,064	104,294
Notes receivable current	1,367	2,161
Deferred income taxes current	2,948	3,104
Other current assets	8,023	8,968
Assets of discontinued operations	3,454	19,570
Current assets before funds held for clients	175,278	168,575
Funds held for clients	71,846	84,441
Total current assets	247,124	253,016
Property and equipment, net	25,557	26,987
Notes receivable non-current	1,503	2,486
Deferred income taxes non-current	8,914	7,384
Goodwill and other intangible assets, net	214,985	205,917
Assets of deferred compensation plan	22,037	17,120
Other assets	4,836	5,372
Total assets	$ 524,956	$ 518,282
LIABILITIES		
Current liabilities:		
Accounts payable	$ 24,134	$ 27,746
Income taxes payable	7,002	3,728
Accrued personnel costs	35,291	35,965
Other current liabilities	13,894	19,034
Liabilities of discontinued operations	4,674	4,971
Current liabilities before client fund obligations	84,995	91,444
Client fund obligations	71,846	84,441
Total current liabilities	156,841	175,885
Convertible notes	100,000	100,000
Bank debt	12,000	

Deferred compensation plan obligations	22,037	17,120
Other non-current liabilities	10,623	8,699
Total liabilities	301,501	301,704
STOCKHOLDERS EQUITY		
Common stock	1,038	1,018
Additional paid-in capital	473,514	465,319
Accumulated deficit	(43,514)	(72,917)
Treasury stock	(207,495)	(176,773)
Accumulated other comprehensive loss	(88)	(69)
Total stockholders equity	223,455	216,578
Total liabilities and stockholders equity	$ 524,956	$ 518,282

See the accompanying notes to the consolidated financial statements.

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CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	**2006**	**2007**	**2006**
Revenue	$ 151,718	$ 137,116	$ 487,616	$ 446,269
Operating expenses	134,787	121,739	412,450	376,958
Gross margin	16,931	15,377	75,166	69,311
Corporate general and administrative expense	6,370	5,568	20,466	19,633
Depreciation and amortization expense	3,823	4,077	11,779	11,868
Operating income	6,738	5,732	42,921	37,810
Other income (expense):				
Interest expense	(981)	(842)	(3,372)	(2,499)
Gain on sale of operations, net	20	7	125	14
Other income, net	746	936	3,342	2,667
Total other income (expense), net	(215)	101	95	182
Income from continuing operations before income tax expense	6,523	5,833	43,016	37,992
Income tax expense	2,598	2,258	17,714	15,219
Income from continuing operations	3,925	3,575	25,302	22,773
Loss from operations of discontinued operations, net of tax	(302)	(5)	(1,275)	(1,912)
Gain on disposal of discontinued operations, net of tax	1,023	553	4,713	506
Net income	$ 4,646	$ 4,123	$ 28,740	$ 21,367
Earnings (loss) per share:				
Basic:				
Continuing operations	$ 0.06	$ 0.05	$ 0.39	$ 0.32
Discontinued operations	0.01	0.01	0.05	(0.02)
Net income	$ 0.07	$ 0.06	$ 0.44	$ 0.30

Diluted:								
Continuing operations	$	0.06	$	0.05	$	0.38	$	0.31
Discontinued operations		0.01		0.01		0.05		(0.02)
Net income	$	0.07	$	0.06	$	0.43	$	0.29
Basic weighted average shares outstanding		64,842		68,314		65,437		72,092
Diluted weighted average shares outstanding		66,083		70,421		66,845		74,406

See the accompanying notes to the consolidated financial statements.

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CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2007	**2006**
Cash flows from operating activities:		
Net income	$ 28,740	$ 21,367
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from operations of discontinued operations, net of tax	1,275	1,912
Gain on disposal of discontinued operations, net of tax	(4,713)	(506)
Gain on sale of operations, net	(125)	(14)
Bad debt expense, net of recoveries	2,827	2,382
Depreciation and amortization expense	11,779	11,868
Deferred income taxes	(950)	(3,308)
Excess tax benefits from share based payment arrangements	(2,356)	(2,709)
Employee stock awards	1,711	2,666
Changes in assets and liabilities, net of acquisitions and dispositions:		
Restricted cash	619	(4,526)
Accounts receivable, net	(18,914)	(15,063)
Other assets	(324)	92
Accounts payable	(3,702)	(2,917)
Income taxes payable	2,507	8,262
Accrued personnel costs	(1,317)	(6,204)
Other liabilities	1,022	1,846
Net cash provided by continuing operations	18,079	15,148
Operating cash flows provided by discontinued operations	969	1,598
Net cash provided by operating activities	19,048	16,746
Cash flows from investing activities:		
Business acquisitions and contingent consideration, net of cash acquired	(18,922)	(20,578)
Acquisition of other intangible assets	(1,608)	(2,416)
Proceeds from sales of divested operations and client lists	256	19
Proceeds from sales of discontinued operations	27,491	7,303
Additions to property and equipment, net	(4,232)	(4,497)
Payments received on notes receivable	438	1,528
Net cash used in discontinued operations	(640)	(327)
Net cash provided by (used in) investing activities	2,783	(18,968)
Cash flows from financing activities:		
Proceeds from convertible notes		100,000
Proceeds from bank debt	218,510	142,900
Payment of bank debt	(206,510)	(175,100)

Payment of notes payable and capitalized leases, net	(388)	(503)
Deferred financing costs		(3,561)
Payment for acquisition of treasury stock	(30,812)	(62,920)
Proceeds from exercise of stock options	3,576	5,265
Excess tax benefit from exercise of stock awards	2,356	2,709
Net cash (used in) provided by financing activities	(13,268)	8,790
Net increase in cash and cash equivalents	8,563	6,568
Cash and cash equivalents at beginning of year	12,971	8,909
Cash and cash equivalents at end of period	$ 21,534	$ 15,477

See the accompanying notes to the consolidated financial statements.

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CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting solely of normal recurring adjustments) considered necessary to present fairly the financial position of CBIZ, Inc. and its consolidated subsidiaries (CBIZ) as of September 30, 2007 and December 31, 2006, the results of their operations for the three and nine months ended September 30, 2007 and 2006, and cash flows for the nine months ended September 30, 2007 and 2006. Due to seasonality, potential changes in economic conditions, interest rate fluctuations and other factors, the results of operations for such interim periods are not necessarily indicative of the results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in CBIZ s Annual Report on Form 10-K for the year ended December 31, 2006.

Organization

CBIZ is a diversified services company which, acting through its subsidiaries, provides professional business services primarily to small and medium-sized businesses, as well as individuals, governmental entities, and not-for-profit enterprises throughout the United States and Toronto, Canada. CBIZ delivers its integrated services through the following four practice groups:

Financial Services

Employee Services

Medical Management Professionals

National Practices

See Note 10 for further information regarding CBIZ s practice groups.

Principles of Consolidation

The accompanying consolidated financial statements reflect the operations of CBIZ and all of its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact is not material to the financial condition, results of operations or cash flows of CBIZ. See further discussion under Variable Interest Entities below.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Management s estimates and assumptions include, but are not limited to, estimates of collectibility of accounts receivable and unbilled revenue, the realizability of goodwill and other intangible assets, the valuation of stock options in determining compensation expense, accrued liabilities (such as incentive compensation), income taxes and other factors. Management s estimates and assumptions are derived from and are continually evaluated based upon available information, judgment and experience. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2006 consolidated financial statements and disclosures have been reclassified to conform to the current year presentation to reflect the impact of discontinued operations.

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CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Revenue Recognition and Valuation of Unbilled Revenues

Revenue is recognized when all of the following are present: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, our fee to the client is fixed or determinable, and collectibility is reasonably assured. These criteria are in accordance with GAAP and SEC Staff Accounting Bulletin No. 104 (SAB 104). CBIZ offers a vast array of products and business services to its clients. Those services are delivered through four practice groups. A description of revenue recognition, as it relates to those groups, is provided below.

Financial Services Revenue consists primarily of fees for accounting services, preparation of tax returns, consulting services, compliance projects and valuation services including fairness opinions, business plans, litigation support, purchase price allocations and derivative valuations. Revenues are recorded in the period in which services are provided and meet revenue recognition criteria in accordance with SAB 104. CBIZ bills clients based upon a predetermined agreed-upon fixed fee or based on actual hours incurred on client projects at expected net realizable rates per hour, plus agreed-upon out-of-pocket expenses. The cumulative impact on any subsequent revision in the estimated realizable value of unbilled fees for a particular client project is reflected in the period in which the change becomes known.

Employee Services Revenue consists primarily of brokerage and agency commissions, payroll service fees, interest on client funds, and fee income for administering health and retirement plans. A description of the revenue recognition, based on the service provided, insurance product sold, and billing arrangement, is described below.

Commissions relating to brokerage and agency activities whereby CBIZ has primary responsibility for the collection of premiums from insured s (agency or indirect billing) are recognized as of the latter of the effective date of the insurance policy or the date billed to the customer; commissions to be received directly from insurance companies (direct billing) are recognized when the data necessary from the carriers to properly record revenue becomes available; and life insurance commissions are recognized when insurance coverage is afforded to the individual under the policy. Commission revenue is reported net of sub-broker commissions, and reserves for estimated policy cancellations and terminations. The cancellation and termination reserve is based upon estimates and assumptions using historical cancellation and termination experience and other current factors to project future experience. CBIZ periodically reviews the adequacy of the reserve and makes adjustments as necessary. The use of different estimates or assumptions could produce different results.

Commissions which are based upon certain performance targets are recognized at the earlier of written notification that the target has been achieved, or cash collection.

Fee income is recognized in the period in which services are provided, and may be based on actual hours incurred on an hourly fee basis, fixed fee arrangements, or asset-based fees.

Payroll Revenue is recognized when the actual payroll processing occurs.

Medical Management Professionals Fees for services are primarily based on a percentage of net collections of clients patient accounts receivable. As such, revenue is determinable, earned, and recognized, when payments are received by our clients on their patient accounts. Revenue earned on statement mailing services is recognized when statements are processed and mailed. Revenue from the sale of billing systems is recognized upon installation of the system, while the related system maintenance revenue is recognized over the period covered by the maintenance agreement.

National Practices The business units that comprise this practice group offer a variety of services. A description of revenue recognition associated with the primary services is provided below.

Technology Consulting Revenue associated with hardware and software sales is recognized upon delivery and acceptance of the product. Revenue associated with installation

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

is recognized as services are performed, and revenue associated with service agreements is recognized on a straight-line basis over the period of the agreement. Consulting revenue is recognized on an hourly or per diem fee basis as services are performed.

Health Care Consulting CBIZ bills clients based upon a predetermined agreed-upon fixed fee or based on actual hours incurred on client projects at expected net realizable rates per hour, plus agreed-upon out-of-pocket expenses, or as a percentage of savings after contingencies have been resolved and verified by a third party.

Mergers & Acquisitions and Capital Advisory Revenue associated with non-refundable retainers is recognized on a pro rata basis over the life of the engagement. Revenue associated with success fee transactions is recognized when the transaction is completed.

Certain of our client arrangements encompass multiple deliverables. CBIZ accounts for these arrangements in accordance with Emerging Issues Task Force No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables (EITF 00-21). If the deliverables meet the criteria in EITF 00-21, the deliverables are divided into separate units of accounting and revenue is allocated to the deliverables based on their relative fair values. Revenue for each unit is recognized separately in accordance with CBIZ s revenue recognition policy for each unit. For those arrangements where the deliverables do not qualify as a separate unit of accounting, revenue from all deliverables are treated as one accounting unit and evaluated for appropriate accounting treatment based upon the underlying facts and circumstances.

Operating Expenses

Operating expenses represent costs of service and other costs incurred to operate our business units, and are primarily comprised of personnel and occupancy related expenses.

Personnel costs include base compensation, commissions, payroll taxes, income or losses earned on assets of the deferred compensation plan, and benefits, which are recognized as expense as they are incurred. Personnel costs also include stock-based and incentive compensation costs, which are estimated and accrued on a monthly basis. The ultimate determination of incentive compensation is made after year-end results are finalized, and therefore estimates are subject to change. Total personnel costs were $100.6 million and $90.2 million for the three months ended and $309.3 million and $281.8 million for the nine months ended September 30, 2007 and 2006, respectively.

The largest components of occupancy costs are rent expense and utilities. Base rent expense is recognized over respective lease terms, while utilities and common area maintenance charges are recognized as incurred. Total occupancy costs were $9.4 million and $8.9 million for the three months ended and $27.5 million and $26.6 million for the nine months ended September 30, 2007 and 2006, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

CBIZ carries accounts receivable at their face amount less allowances for doubtful accounts, and carries unbilled revenues at net realizable value. Assessing the collectibility of receivables (billed and unbilled) requires management judgment. When evaluating the adequacy of the allowance for doubtful accounts and the overall collectibility of receivables, CBIZ analyzes historical bad debts, client credit-worthiness, the age of accounts receivable and current economic trends and conditions.

Funds Held for Clients and Client Fund Obligations

Services provided by CBIZ include the preparation of payroll checks, federal, state, and local payroll tax returns, and flexible spending account administration. In relation to these services, CBIZ collects funds from its clients accounts in advance of paying these client obligations. Funds that are collected before they are due are segregated and reported separately as funds held for clients in the consolidated balance sheets. Other than certain federal and state regulations pertaining to flexible

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

spending account administration, there are no regulatory or other contractual restrictions placed on these funds.

Funds held for clients may include cash, cash equivalents and short-term investments. Short-term investments may include Auction Rate Securities (ARS), which are long-term variable rate bonds that are priced and traded as short-term investments due to the liquidity provided through the auction mechanism that generally occurs every 7 to 35 days. Although ARS are considered to be highly liquid, they do not meet the definition of cash equivalents due to the long-term maturity dates; therefore, ARS are classified as marketable securities in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, (SFAS No. 115). Funds held for clients and the related client fund obligations are included in the consolidated balance sheets as current assets and current liabilities, respectively. The amount of collected but not yet remitted funds may vary significantly during the year.

Variable Interest Entities

In accordance with the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46), as amended, CBIZ has determined that its relationship with certain Certified Public Accounting (CPA) firms with whom we maintain administrative service agreements (ASAs) qualify as variable interest entities. The accompanying financial statements do not reflect the consolidation of the variable interest entities, as the impact is not material to the financial condition, results of operations or cash flows of CBIZ.

The CPA firms with which CBIZ maintains ASAs operate as limited liability companies, limited liability partnerships or professional corporations. The firms are separate legal entities with separate governing bodies and officers. CBIZ has no ownership interest in any of these CPA firms, and neither the existence of the ASAs nor the providing of services thereunder is intended to constitute control of the CPA firms by CBIZ. CBIZ and the CPA firms maintain their own respective liability and risk of loss in connection with performance of each of its respective services, and CBIZ does not believe that its arrangements with these CPA firms result in additional risk of loss.

Fees earned by CBIZ under the ASAs are recorded as revenue (at net realizable value) in the consolidated statements of operations. In the event that accounts receivable and unbilled work in process become uncollectible by the CPA firms, the service fee due to CBIZ is reduced on a pro-rata basis. Although the ASA s do not constitute control, CBIZ is one of the beneficiaries of the agreements and may bear certain economic risks.

Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by weighted average diluted shares. Weighted average diluted shares are determined using the weighted average number of common shares outstanding during the period plus the dilutive effect of potential future issues of common stock relating the CBIZ s stock award programs, CBIZ s convertible senior subordinated notes, and other potentially dilutive securities. In calculating diluted earnings per share, the dilutive effect of stock awards are computed using the average market price for the period, in accordance with the treasury stock method.

As further described in Note 4, CBIZ s convertible senior subordinated notes (Notes) may result in future issuances of CBIZ common stock. Under the net share settlement method, potential shares issuable under the Notes will be considered dilutive, and will be included in the calculation of weighted average diluted shares, if the Company s market price per share exceeds the $10.63 conversion price of the Notes. As of September 30, 2007, the Company s market price per share had not exceeded the conversion price of the Notes, therefore, the diluted earnings per share calculation was not impacted by this feature.

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CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

New Accounting Pronouncements

Effective January 1, 2007, CBIZ adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax positions and requires applying a more likely than not threshold to the recognition of tax positions based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The adoption of FIN 48 resulted in a $0.7 million decrease in the total liability for unrecognized tax benefits, which was recorded as an adjustment reducing the January 1, 2007 accumulated deficit. Unrecognized tax benefits as of January 1, 2007 totaled $4.0 million, of which $2.4 million would impact the effective tax rate, if recognized. In addition, total unrecognized tax benefits include $0.5 million in tax positions for which there is uncertainty as to the timing of deductibility. If the taxing authorities do not allow our position of deducting these benefits over a shorter period of time, payment of cash to such authorities would be required in an earlier period; CBIZ s annual effective tax rate would not be impacted.

CBIZ recognizes interest income, interest expense, and penalties related to unrecognized tax benefits as a component of income tax expense. As of January 1, 2007, the total amount accrued for interest and penalties was $0.5 million and $0.2 million, respectively.

The Company is currently under audit by the Internal Revenue Service for tax years 2003 and 2004 and may be required to make payments within the next twelve months related to this audit in the range of $2.2 million to $2.8 million. Payment of these amounts would not impact CBIZ s annual effective tax rate or the Company s earnings for 2007.

CBIZ and its subsidiaries file income tax returns in the U.S., Canada, and most state jurisdictions, and is subject to U.S. federal tax examinations for the years ending December 31, 2003 and thereafter. The majority of CBIZ s state and local or non-U.S. income tax returns for years ending before December 31, 2002 are no longer subject to tax authority examinations.

2. Accounts Receivable, Net

Accounts receivable balances at September 30, 2007 and December 31, 2006 were as follows (in thousands):

	2007	**2006**
Trade accounts receivable	$ 96,935	$ 90,158
Unbilled revenue	29,732	19,440
Other accounts receivable	576	657
Total accounts receivable	127,243	110,255
Allowance for doubtful accounts	(6,179)	(5,961)
Accounts receivable, net	$ 121,064	$ 104,294

CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

3. Goodwill and Other Intangible Assets, Net

The components of goodwill and other intangible assets, net at September 30, 2007 and December 31, 2006 were as follows (in thousands):

	2007	2006
Goodwill	$ 174,418	$ 172,087
Intangibles:		
Client lists	47,780	37,330
Intangible assets other	7,634	7,578
Total intangibles	55,414	44,908
Total goodwill and other intangibles assets	229,832	216,995
Accumulated amortization	(14,847)	(11,078)
Goodwill and other intangible assets, net	$ 214,985	$ 205,917

Client lists are amortized over their expected useful lives, not to exceed ten years. Other intangible assets, which consist primarily of non-compete agreements and trade-names, are amortized over their expected useful lives ranging from two to ten years. Amortization expense for client lists and other intangible assets was approximately $1.4 million and $1.2 million for the three months ended and $4.1 million and $3.4 million for the nine months ended September 30, 2007 and 2006, respectively.

4. Borrowing Arrangements

Convertible Senior Subordinated Notes

On May 30, 2006, CBIZ sold and issued $100.0 million in convertible senior subordinated notes (the Notes). The Notes are direct, unsecured, senior subordinated obligations of CBIZ and rank (i) junior in right of payment to all of CBIZ s existing and future senior indebtedness, (ii) equal in right of payment with any other future senior subordinated indebtedness, and (iii) senior in right of payment to all subordinated indebtedness. The terms of the Notes are governed by the Indenture dated as of May 30, 2006, with U.S. Bank National Association as trustee. The Notes and indenture are further described in the Annual Report on Form 10-K for the year ended December 31, 2006.

The Notes bear interest at a rate of 3.125% per annum, payable in cash semi-annually in arrears on each June 1 and December 1 beginning December 1, 2006. The Notes mature on June 1, 2026 and may be redeemed by CBIZ in whole or in part anytime after June 6, 2011. The Notes are convertible into CBIZ common stock at a rate equal to 94.1035 shares per $1,000 principal amount of the Notes (equal to an initial conversion price of approximately $10.63 per share), subject to adjustment as described in the indenture. Upon conversion, CBIZ will deliver for each $1,000 principal amount of Notes, an amount consisting of cash equal to the lesser of $1,000 or the conversion value (as defined in the Indenture) and, to the extent that the conversion value exceeds $1,000, at CBIZ s election, cash or shares of CBIZ common stock in respect of the remainder.

Bank Debt

CBIZ maintains a $100.0 million unsecured credit facility with Bank of America as agent bank for a group of five participating banks. The credit facility has a five year term expiring February 2011, and an option to increase the commitment to $150.0 million. CBIZ had approximately $80.3 million of available funds under the credit facility at September 30, 2007. Total availability is reduced by letters of credit and obligations determined to be other indebtedness in accordance with the terms of the credit facility.

The credit facility provides CBIZ operating flexibility and funding to support seasonal working capital needs and other strategic initiatives such as acquisitions and share repurchases. Under the credit facility, loans are charged an interest rate consisting of a base rate or Eurodollar rate plus an applicable margin. Additionally, a commitment fee of 22.5 to 47.5 basis points is charged on the unused portion of the credit facility.

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CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

CBIZ had $12.0 million of outstanding borrowings under its credit facility at September 30, 2007, and had no borrowings under the credit facility at December 31, 2006. Rates for the nine months ended September 30, 2007 and for the twelve months ended December 31, 2006 were as follows:

	2007	2006
Weighted average rates	7.35%	6.26%
Range of effective rates	6.68% 8.25%	5.41% 8.25%

The credit facility is subject to certain financial covenants that may limit CBIZ s ability to borrow up to the total commitment amount. Covenants require CBIZ to meet certain requirements with respect to (i) minimum net worth; (ii) maximum leverage ratio; and (iii) a minimum fixed charge coverage ratio. The credit facility also places restrictions on CBIZ s ability to create liens or other encumbrances, to make certain payments, investments, loans and guarantees and to sell or otherwise dispose of a substantial portion of assets, or to merge or consolidate with an unaffiliated entity. According to the terms of the 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. The credit facility contains a provision that, in the event of a defined change in control, the credit facility may be terminated.

There are no limitations on CBIZ s ability to acquire businesses or repurchase CBIZ common stock provided that the Leverage Ratio is less than 2.0. The Leverage Ratio is calculated as total debt (excluding the convertible senior subordinated notes) compared to EBITDA as defined by the facility.

5. Commitments and Contingencies

Acquisitions

The purchase price that CBIZ pays for businesses and client lists generally consist of two components: an up-front non-contingent portion, and a portion which is contingent upon the acquired businesses or client lists actual future performance. Non-contingent purchase price is recorded at the date of acquisition and contingent purchase price is recorded as it is earned. Acquisitions are further discussed in Note 8.

Indemnifications

CBIZ has various agreements in which we 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 September 30, 2007, CBIZ was not aware of any material obligations arising under indemnification agreements that would require payments.

Employment Agreements

CBIZ maintains severance and employment agreements with certain of its executive officers, whereby such officers may be entitled to payment in the event of termination of their employment. CBIZ also has arrangements with certain non-executive employees which may include severance and other

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CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

employment provisions. CBIZ accrues for amounts payable under these contracts and arrangements as triggering events occur and obligations become known. During the three and nine months ended September 30, 2007 and 2006, payments regarding such contracts and arrangements were not material.

Letters of Credit and Guarantees

CBIZ provides letters of credit to landlords (lessors) of its leased premises in lieu of cash security deposits, which totaled $2.0 million as of September 30, 2007 and December 31, 2006. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding was $1.4 million and $1.6 million at September 30, 2007 and December 31, 2006, respectively.

CBIZ acted as guarantor on various letters of credit for a CPA firm with which it has an affiliation, which totaled $1.3 million as of September 30, 2007 and $1.7 million as of December 31, 2006. In accordance with FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others , as amended, CBIZ has recognized a liability for the fair value of the obligations undertaken in issuing these guarantees, which is recorded as other current liabilities in the accompanying consolidated balance sheets. Management does not expect any material changes to result from these instruments as performance under the guarantees is not expected to be required.

Legal Proceedings

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 financial condition, results of operations or cash flows of CBIZ.

6. Employer Share Plans

CBIZ has granted various stock-based awards under its 1996 Employee Stock Option Plan and 2002 Stock Incentive Plan, which are described in further detail in CBIZ s Annual Report on Form 10-K for the year ended December 31, 2006. The terms and vesting schedules for stock-based awards vary by type and date of grant. In accordance with SFAS No. 123 (revised 2004), Share-Based Payment , compensation cost for stock-based awards recognized during the three and nine months ended September 30, 2007 and 2006 was as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006	2007	2006
Stock options	$ 404	$ 389	$ 1,194	$ 1,159
Restricted stock awards	221	92	517	202
Restricted performance awards (1)		559		1,305
Total stock-based compensation	$ 625	$ 1,040	$ 1,711	$ 2,666

(1) CBIZ terminated the restricted

performance
award plan
effective
December 31,
2006.

CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Stock award activity during the nine months ended September 30, 2007 was as follows (in thousands, except per share data):

	Stock Options		Restricted Stock Awards	
	Number of Options	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Grant-Date Fair Value (1)
Outstanding at beginning of year	4,743	$3.70	363	$ 5.36
Granted	941	$7.56	244	$ 7.45
Exercised	(1,678)	$2.12		$
Released from restrictions		$	(90)	$ 5.79
Expired or canceled	(31)	$4.92	(1)	$ 4.30
Outstanding at September 30, 2007	3,975	$5.27	516	$ 6.28
Exercisable at September 30, 2007	2,050	$3.94		

(1) Represents weighted average market value of the shares; awards are granted at no cost to the recipients.

CBIZ had approximately 3.5 million shares available for future grant under the stock option plans at September 30, 2007.

7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2007 and 2006 (in thousands, except per share data).

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006	2007	2006
Numerator:				
Income from continuing operations after income tax expense	$ 3,925	$ 3,575	$ 25,302	$ 22,773
Denominator:				

Basic				
Weighted average common shares	64,842	68,314	65,437	72,092
Diluted				
Options (1)	924	1,792	1,102	2,016
Restricted stock awards	132	122	118	105
Contingent shares (2)	185	193	188	193
Total diluted weighted average common shares	66,083	70,421	66,845	74,406
Basic earnings per share from continuing operations	$ 0.06	$ 0.05	$ 0.39	$ 0.32
Diluted earnings per share from continuing operations	$ 0.06	$ 0.05	$ 0.38	$ 0.31

(1) A total of 1.6 million options were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2007, and a total of 0.7 million options were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2006, as their exercise prices would render them anti-dilutive.

(2) Contingent shares represent additional shares to be issued for purchase price

earned by
former owners
of businesses
acquired by
CBIZ once
future
conditions have
been met.

CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

8. Acquisitions

During the nine months ended September 30, 2007, CBIZ acquired an accounting firm, a medical billing service company and four client lists. The accounting firm is located in Phoenix, Arizona and is reported in the Financial Services practice group. The medical billing services company is based in Montgomery, Alabama and is reported in the Medical Management Professionals practice group. Aggregate consideration for the acquisitions consisted of approximately $10.4 million in cash and 62,400 shares of common stock (valued at approximately $0.4 million) paid at closing, and up to an additional $8.8 million (payable in cash and common stock) which is contingent on certain future revenue and earnings targets. In addition, CBIZ paid approximately $8.5 million in cash and issued approximately 21,800 shares of common stock during the nine months ended September 30, 2007 as contingent proceeds for previous acquisitions.

During the nine months ended September 30, 2006, CBIZ acquired a medical billing services company, two property and casualty insurance businesses and two client lists. The medical billing services company is based in Flint, Michigan and was merged into the Medical Management Professionals practice group. The property and casualty insurance businesses, one located in San Jose, California, and the other with offices in St. Joseph and Kansas City, Missouri, offer property and casualty, commercial bonds and employee benefits. Both businesses were merged into the Employee Services practice group. Aggregate consideration for these acquisitions consisted of approximately $13.5 million in cash (net of cash acquired) and 232,400 shares of restricted common stock (valued at approximately $1.5 million) paid at closing, and up to an additional $9.6 million (payable in cash and stock) which is contingent upon the future financial performance of the acquired businesses and client lists. In addition, CBIZ paid approximately $7.1 million in cash and issued approximately 159,000 shares of common stock during the nine months ended September 30, 2006, as contingent proceeds and towards notes payable for previous acquisitions.

The operating results of these businesses have been included in the accompanying consolidated financial statements since the dates of acquisition. Client lists and non-compete agreements were recorded at fair value at the time of acquisition. The excess of purchase price over the fair value of net assets acquired, (including client lists and non-compete agreements) was allocated to goodwill. Additions to goodwill, client lists and other intangible assets resulting from acquisitions and contingent consideration earned during the nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	2007	2006
Goodwill	$ 2,535	$ 4,495
Client lists	$ 10,612	$ 15,084
Other intangible assets	$ 274	$ 412

9. Discontinued Operations and Divestitures

From time to time, CBIZ will divest (through sale or closure) business operations that do not contribute to the Company s long-term objectives for growth, or that are not complementary to its target service offerings and markets. Divestitures are classified as discontinued operations provided they meet the criteria as provided in SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets and EITF No. 03-13, Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets in Determining Whether to Report Discontinued Operations .

During the second quarter of 2007, CBIZ committed to the divestiture of two operations in the Financial Services practice group. One of these operations was sold on September 30, 2007 and the other remained available for sale. Proceeds for the sold operation consisted of $11.1 million cash and resulted in a pre-tax gain of $3.9 million. This gain is reported in Gain on disposal of discontinued operations, net of tax in the accompanying consolidated statements of operations. In addition, CBIZ

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CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

may receive contingent future proceeds for up to three years based on a percentage of certain sales revenues of the divested operation, subject to specific limitations.

During the fourth quarter of 2006, CBIZ committed to the divestiture of two operations, one each from the Employee Services and Financial Services practice groups. The Financial Services operation was sold during the first quarter of 2007 for proceeds that consisted of \$0.6 million cash and \$0.6 million in notes receivable, and resulted in a pre-tax loss of \$0.1 million. The Employee Services operation was sold during the second quarter of 2007 for proceeds of \$14.1 million cash and resulted in a pre-tax gain of \$8.6 million. These gains and losses are reported in Gain on disposal of discontinued operations, net of tax in the accompanying consolidated statements of operations. In addition, CBIZ may receive contingent future proceeds not to exceed \$2.0 million, provided the divested Employee Services operation achieves certain revenue targets. These proceeds will be recorded as gain on sale of discontinued operations in the period they are earned.

In addition to the proceeds described above, CBIZ received payments of \$1.7 million during the nine months ended September 30, 2007 on outstanding notes receivable related to divestitures made in prior years. The gains and losses related to these divestitures were recognized in previous years.

During the second quarter of 2006, CBIZ sold an operation from the Financial Services practice group which was classified as available for sale at March 31, 2006. During the first quarter of 2006, the unit was written down to its estimated fair value, resulting in a pre-tax loss of approximately \$0.2 million. CBIZ also sold certain property tax operations from a business unit in the National Practices group during the second quarter of 2006. The business was classified as a discontinued operation in 2005, and the sale resulted in a pre-tax loss of approximately \$0.5 million. In addition, CBIZ recognized pre-tax gains of \$0.9 million and \$2.0 million during the three and nine months ended September 30, 2006, respectively, for contingent proceeds related to a business that was sold in 2005. These gains and losses are reported in Gain on disposal of discontinued operations, net of tax , in the accompanying consolidated statements of operations. As a result of these transactions, CBIZ received cash proceeds totaling \$7.3 million during the nine months ended September 30, 2006.

CBIZ may earn additional proceeds on the sale of certain client lists (sold in previous years), which are contingent upon future revenue generated by the client lists. CBIZ records these proceeds as other income when they are earned. In addition, CBIZ has deferred gains on the sale of certain client lists, which are recorded as other non-current liabilities in the accompanying consolidated balance sheets. The gains are being recognized as gain on sale of operations, net as cash payments are received.

For those businesses that qualified for treatment as discontinued operations, the assets, liabilities and results of operations are reported separately in the accompanying consolidated financial statements. Revenue and loss from operations of discontinued operations for the three and nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006	2007	2006
Revenue	$ 3,146	$ 7,238	$ 15,959	$ 22,753
Income (loss) from operations of discontinued operations, before income tax (expense) benefit	$ (799)	$ 1	$ (2,322)	$ (3,029)

Income tax (expense) benefit	497	(6)	1,047	1,117
Loss from operations of discontinued operations, net of tax	$ (302)	$ (5)	$ (1,275)	$ (1,912)

CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Gain on the disposal of discontinued operations for the three and nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006	2007	2006
Gain on disposal of discontinued operations, before income tax expense	$ 3,915	$ 877	$ 12,494	$ 1,309
Income tax expense	(2,892)	(324)	(7,781)	(803)
Gain on disposal of discontinued operations, net of tax	$ 1,023	$ 553	$ 4,713	$ 506

At September 30, 2007 and December 31, 2006, the assets and liabilities of businesses classified as discontinued operations consisted of the following (in thousands):

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
Assets:		
Accounts receivable, net	$ 1,540	$ 4,049
Deferred income taxes, net	171	2,369
Property and equipment, net	358	2,876
Goodwill and other intangible assets, net	1,346	9,127
Other assets	39	1,149
Assets of discontinued operations	$ 3,454	$ 19,570
Liabilities:		
Accounts payable	$ 913	$ 1,185
Accrued personnel costs	745	518
Other liabilities	3,016	3,268
Liabilities of discontinued operations	$ 4,674	$ 4,971

10. Segment Disclosures

CBIZ s business units have been aggregated into four practice groups: Financial Services; Employee Services; Medical Management Professionals; and National Practices. The business units have been aggregated based on the following factors: similarity of the products and services provided to clients; similarity of the regulatory environment; and similarity of economic conditions affecting long-term performance. The business units are managed along these segment lines. A general description of services provided by practice group is provided in the following table:

Financial Services

Accounting

Tax

- Financial Advisory
- Litigation Support
- Valuation
- Sarbanes-Oxley 404 Consulting
- Internal Audit
- Fraud Detection
- Real Estate Advisory

Employee Services

- Group Health
- Property & Casualty
- COBRA / Flex
- Retirement Planning
- Wealth Management
- Life Insurance
- Human Capital Management
- Payroll Services
- Specialty Life Insurance
- Actuarial Services

National Practices

- Managed Networking and Hardware Services
- IT Consulting
- Project Management
- Software Solutions
- Mergers & Acquisitions
- Health Care Consulting
- Government Relations

CBIZ MMP

- Coding and Billing

Accounts Receivable Management

Full Practice Management Services

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CBIZ, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Corporate and Other. Included in Corporate and Other are operating expenses that are not directly allocated to the individual business units. These expenses are primarily comprised of incentive compensation, earnings or losses on assets held in the deferred compensation plan, infrastructure costs and consolidation and integration charges.

Accounting policies of the practice groups are the same as those described in Note 1, Summary of Significant Accounting Policies. Upon consolidation, all intercompany accounts and transactions are eliminated; thus inter-segment revenue is not included in the measure of profit or loss for the practice groups. Performance of the practice groups is evaluated on operating income excluding the costs of certain infrastructure functions (such as information systems, finance and accounting, human resources, legal and marketing), which are reported in the Corporate and Other segment.

Segment information for the three and nine-month periods ended September 30, 2007 and 2006 was as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2007					
	Financial Services	**Employee Services**	**CBIZ MMP**	**National Practices**	**Corporate and Other**	**Total**
Revenue	$ 65,537	$ 41,684	$ 32,420	$ 12,077	$	$ 151,718
Operating expenses	58,589	33,600	27,021	11,155	4,422	134,787
Gross margin	6,948	8,084	5,399	922	(4,422)	16,931
Corporate general & admin					6,370	6,370
Depreciation & amortization	823	900	969	56	1,075	3,823
Operating income (loss)	6,125	7,184	4,430	866	(11,867)	6,738
Other income (expense):						
Interest expense	(8)	(11)			(962)	(981)
Gain on sale of operations, net					20	20
Other income, net	58	461	50	8	169	746
Total other income (expense)	50	450	50	8	(773)	(215)
Income (loss) from continuing operations before income tax expense	$ 6,175	$ 7,634	$ 4,480	$ 874	$ (12,640)	$ 6,523

	THREE MONTHS ENDED SEPTEMBER 30, 2006					
	Financial Services	**Employee Services**	**CBIZ MMP**	**National Practices**	**Corporate and Other**	**Total**
Revenue	$ 57,692	$ 37,106	$ 29,746	$ 12,572	$	$ 137,116

Operating expenses	52,011	30,469	24,255	11,220	3,784	121,739
Gross margin	5,681	6,637	5,491	1,352	(3,784)	15,377
Corporate general & admin					5,568	5,568
Depreciation & amortization	880	847	776	64	1,510	4,077
Operating income (loss)	4,801	5,790	4,715	1,288		