

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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from _____ to _____

Commission File 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 No

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 Accelerated filer Non-accelerated filer

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

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 July 31, 2007
Common Stock, par value \$0.01 per share	65,601,187

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

	JUNE 30,	DECEMBER
	2007	31,
		2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,683	\$ 12,971
Restricted cash	16,014	17,507
Accounts receivable, net	124,295	104,294
Notes receivable - current	1,399	2,161
Deferred income taxes - current	3,175	3,104
Other current assets	9,737	8,968
Assets of discontinued operations	11,091	19,826
Current assets before funds held for clients	171,394	168,831
Funds held for clients	69,534	84,441
Total current assets	240,928	253,272
Property and equipment, net	25,649	26,987
Notes receivable - non-current	1,845	2,486
Deferred income taxes - non-current	8,189	7,384
Goodwill and other intangible assets, net	215,985	205,661
Assets of deferred compensation plan	20,958	17,120
Other assets	5,024	5,372
Total assets	\$ 518,578	\$ 518,282
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 28,351	\$ 27,746
Income taxes payable	6,069	3,728
Accrued personnel costs	29,981	35,965
Other current liabilities	14,702	19,034
Liabilities of discontinued operations	4,830	4,971
Current liabilities before client fund obligations	83,933	91,444
Client fund obligations	69,534	84,441
Total current liabilities	153,467	175,885

Convertible notes	100,000	100,000
Bank debt	10,000	
Deferred compensation plan obligations	20,958	17,120
Other non-current liabilities	10,787	8,699
Total liabilities	295,212	301,704
STOCKHOLDERS EQUITY		
Common stock	1,036	1,018
Additional paid-in capital	471,943	465,319
Accumulated deficit	(48,160)	(72,917)
Treasury stock	(201,375)	(176,773)
Accumulated other comprehensive loss	(78)	(69)
Total stockholders equity	223,366	216,578
Total liabilities and stockholders equity	\$ 518,578	\$ 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
Revenue	\$ 156,946	\$ 146,250	\$ 335,898	\$ 309,153
Operating expenses	135,827	123,851	277,663	255,219
Gross margin	21,119	22,399	58,235	53,934
Corporate general and administrative expense	6,508	7,333	14,096	14,065
Depreciation and amortization expense	4,001	3,949	7,956	7,791
Operating income	10,610	11,117	36,183	32,078
Other income (expense):				
Interest expense	(1,415)	(865)	(2,391)	(1,657)
Gain on sale of operations, net	10	7	105	7
Other income, net	1,989	496	2,596	1,731
Total other income (expense), net	584	(362)	310	81
Income from continuing operations before income tax expense	11,194	10,755	36,493	32,159
Income tax expense	4,754	4,405	15,116	12,961
Income from continuing operations	6,440	6,350	21,377	19,198
Loss from operations of discontinued operations, net of tax	(493)	(910)	(973)	(1,907)
Gain (loss) on disposal of discontinued operations, net of tax	3,883	(214)	3,690	(47)
Net income	\$ 9,830	\$ 5,226	\$ 24,094	\$ 17,244
Earnings per share:				
Basic:				
Continuing operations	\$ 0.10	\$ 0.09	\$ 0.33	\$ 0.26
Discontinued operations	0.05	(0.02)	0.04	(0.03)
Net income	\$ 0.15	\$ 0.07	\$ 0.37	\$ 0.23

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Diluted:				
Continuing operations	\$ 0.10	\$ 0.08	\$ 0.32	\$ 0.25
Discontinued operations	0.05	(0.01)	0.04	(0.02)
Net income	\$ 0.15	\$ 0.07	\$ 0.36	\$ 0.23
Basic weighted average shares outstanding	65,142	73,185	65,740	74,012
Diluted weighted average shares outstanding	66,459	75,421	67,236	76,409

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)

	SIX MONTHS ENDED	
	JUNE 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 24,094	\$ 17,244
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Loss from operations of discontinued operations, net of tax	973	1,907
(Gain) loss on disposal of discontinued operations, net of tax	(3,690)	47
Gain on sale of operations, net	(105)	(7)
Bad debt expense, net of recoveries	1,948	1,595
Depreciation and amortization expense	7,956	7,791
Deferred income taxes	(453)	(488)
Excess tax benefits from share based payment arrangements	(2,073)	(2,386)
Employee stock awards	1,086	1,580
<i>Changes in assets and liabilities, net of acquisitions and dispositions:</i>		
Restricted cash	1,493	(2,055)
Accounts receivable, net	(21,342)	(18,399)
Other assets	(1,578)	(605)
Accounts payable	538	635
Income taxes payable	4,058	4,483
Accrued personnel costs	(6,087)	(6,772)
Other liabilities	2,000	2,558
Net cash provided by continuing operations	8,818	7,128
Operating cash flows provided by (used in) discontinued operations	583	(1,006)
Net cash provided by operating activities	9,401	6,122
Cash flows from investing activities:		
Business acquisitions and contingent consideration, net of cash acquired	(18,794)	(18,918)
Acquisition of other intangible assets	(1,608)	(2,416)
Proceeds from sales of divested operations and client lists	235	7
Proceeds from sales of discontinued operations	16,355	7,303
Additions to property and equipment, net	(2,616)	(3,009)
Payments received on notes receivable	313	1,230
Net cash used in discontinued operations	(570)	(94)
Net cash used in investing activities	(6,685)	(15,897)
Cash flows from financing activities:		
Proceeds from convertible notes		100,000

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Proceeds from bank debt	153,150	142,900
Payment of bank debt	(143,150)	(175,100)
Payment of notes payable and capitalized leases	(296)	(338)
Deferred financing costs		(3,511)
Payment for acquisition of treasury stock	(24,692)	(56,757)
Proceeds from exercise of stock options	2,911	4,860
Excess tax benefit from exercise of stock awards	2,073	2,386
Net cash (used in) provided by financing activities	(10,004)	14,440
Net (decrease) increase in cash and cash equivalents	(7,288)	4,665
Cash and cash equivalents at beginning of year	12,971	8,909
Cash and cash equivalents at end of period	\$ 5,683	\$ 13,574

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 June 30, 2007, and December 31, 2006, and the results of their operations and cash flows for the three and six months ended June 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 including Sarbanes-Oxley consulting and 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 insureds (agency or indirect billing) are recognized as of the later 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

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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 \$102.0 million and \$92.7 million for the three months ended and \$208.7 million and \$191.6 million for the six months ended June 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 \$9.0 million and \$8.9 million for the three months ended and \$18.1 million and \$17.7 million for the six months ended June 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

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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 ASAs 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 to the CBIZ stock award programs, CBIZ 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 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 June 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.

Table of Contents**CBIZ, INC. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)***New Accounting Pronouncements*

Effective January 1, 2007, CBIZ adopted 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 \$2.0 million to \$2.6 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 June 30, 2007 and December 31, 2006 were as follows (in thousands):

	2007	2006
Trade accounts receivable	\$ 99,640	\$ 90,158
Unbilled revenue	30,278	19,440
Other accounts receivable	664	657
Total accounts receivable	130,582	110,255
Allowance for doubtful accounts	(6,287)	(5,961)
Accounts receivable, net	\$ 124,295	\$ 104,294

Table of Contents**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 June 30, 2007 and December 31, 2006 were as follows (in thousands):

	2007	2006
Goodwill	\$ 174,162	\$ 171,831
Intangibles:		
Client lists	47,730	37,330
Intangible assets other	7,774	7,578
Total intangibles	55,504	44,908
Total goodwill and other intangibles assets	229,666	216,739
Accumulated amortization	(13,681)	(11,078)
Goodwill and other intangible assets, net	\$ 215,985	\$ 205,661

Client lists are amortized over a period not to exceed ten years. Other intangible assets, which consist primarily of non-compete agreements and trade-names, are amortized over periods ranging from two to ten years. Amortization expense for client lists and other intangible assets was approximately \$1.5 million and \$1.2 million for the three months ended and \$2.7 million and \$2.2 million for the six months ended June 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 \$82.0 million of available funds under the credit facility at June 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.

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

CBIZ had \$10.0 million of outstanding borrowings under its credit facility at June 30, 2007, and had no borrowings under the credit facility at December 31, 2006. Rates for the six months ended June 30, 2007 and for the twelve months ended December 31, 2006 were as follows:

	2007	2006
Weighted average rates	7.29%	6.26%
Range of effective rates	6.93% - 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 June 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

Table of Contents**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 six months ended June 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 June 30, 2007 and December 31, 2006. In addition, CBIZ provides performance bonds to various state agencies to meet certain licensing requirements. The amount of performance bonds outstanding was \$1.4 million and \$1.6 million at June 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 \$1.7 million as of June 30, 2007 and 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 six months ended June 30, 2007 and 2006 was as follows (in thousands):

	THREE MONTHS		SIX MONTHS	
	ENDED		ENDED	
	JUNE 30,		JUNE 30,	
	2007	2006	2007	2006
Stock options	\$ 400	\$ 389	\$ 790	\$ 724
Restricted stock awards	189	92	296	110
Restricted performance awards		560		746
Total stock-based compensation	\$ 589	\$ 1,041	\$ 1,086	\$ 1,580

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

Stock award activity during the six months ended June 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	(1,490)	\$1.95		\$
Released from restrictions		\$	(90)	\$ 5.79
Expired or canceled	(15)	\$4.31	(1)	\$ 4.30
Outstanding at June 30, 2007	4,179	\$5.19	516	\$ 6.28
Exercisable at June 30, 2007	2,242	\$3.90		

(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 June 30, 2007.

7. Earnings Per Share

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
Numerator:				
Income from continuing operations after income tax expense	\$ 6,440	\$ 6,350	\$ 21,377	\$ 19,198

Denominator:**Basic**

Weighted average common shares	65,142	73,185	65,740	74,012
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Diluted

Options (1)	1,033	1,957	1,196	2,133
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Restricted stock awards	112	115	121	100
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Contingent shares (2)	172	164	179	164
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Total diluted weighted average common shares	66,459	75,421	67,236	76,409
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Basic earnings per share from continuing operations	\$ 0.10	\$ 0.09	\$ 0.33	\$ 0.26
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Diluted earnings per share from continuing operations	\$ 0.10	\$ 0.08	\$ 0.32	\$ 0.25
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(1) A total of 1.6 million options were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2007, and a total of 0.7 million options were excluded from the calculation of diluted earnings per share for the three and six months ended June 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.

Table of Contents**CBIZ, INC. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****8. Acquisitions**

During the six months ended June 30, 2007, CBIZ acquired an accounting firm, a medical billing service company and three 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 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 \$8.4 million in cash and issued approximately 21,800 shares of common stock during the first half of 2007, as contingent proceeds for previous acquisitions.

During the six months ended June 30, 2006, CBIZ acquired a medical billing services company based in Flint, Michigan which was merged into the Medical Management Professionals practice group. Additionally, CBIZ acquired a property and casualty insurance broker located in San Jose, California, an insurance business offering property and casualty, commercial bonds and employee benefits with offices in St. Joseph and Kansas City Missouri, and two client lists which complement 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 \$5.4 million in cash and issued approximately 159,000 shares of common stock during the six months ended June 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 six months ended June 30, 2007 and 2006 were as follows (in thousands):

	2007	2006
Goodwill	\$ 2,535	\$ 4,253
Client lists	\$ 10,400	\$ 15,067
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. These operations remain available for sale at June 30, 2007.

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

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

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 (loss) 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 \$1.6 million during the six months ended June 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 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 \$0.2 million and \$1.2 million during the three and six months ended June 30, 2006, respectively, for contingent proceeds related to a business that was sold in 2005. These gains and losses are reported in Gain (loss) 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 six months ended June 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 six months ended June 30, 2007 and 2006 were as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
Revenue	\$ 5,716	\$ 7,273	\$ 12,813	\$ 15,515
Loss from operations of discontinued operations, before income tax benefit	\$ (778)	\$ (1,452)	\$ (1,523)	\$ (3,030)
Income tax benefit	285	542	550	1,123
Loss from operations of discontinued operations, net of tax	\$ (493)	\$ (910)	\$ (973)	\$ (1,907)

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
Gain (loss) on disposal of discontinued operations, before income tax (expense) benefit	\$ 8,620	\$ (340)	\$ 8,579	\$ 432
Income tax (expense) benefit	(4,737)	126	(4,889)	(479)
Gain (loss) on disposal of discontinued operations, net of tax	\$ 3,883	\$ (214)	\$ 3,690	\$ (47)

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

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

	JUNE 30, 2007	DECEMBER 31, 2006
Assets:		
Accounts receivable, net	\$ 2,814	\$ 4,049
Deferred income taxes, net	232	2,369
Property and equipment, net	1,889	2,876
Goodwill and other intangible assets, net	5,529	9,383
Other assets	627	1,149
Assets of discontinued operations	\$ 11,091	\$ 19,826
Liabilities:		
Accounts payable	\$ 447	\$ 1,185
Accrued personnel costs	572	518
Income taxes payable	711	
Other liabilities	3,100	3,268
Liabilities of discontinued operations	\$ 4,830	\$ 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	Employee Services	National Practices	CBIZ MMP
Accounting	Group Health	Managed Networking and	Coding and Billing
Tax	Property & Casualty	Hardware Services	Accounts Receivable
Financial Advisory	COBRA / Flex	IT Consulting	Management
Litigation Support	Retirement Planning	Project Management	Full Practice Management
Valuation	Wealth Management	Software Solutions	Services
Sarbanes-Oxley 404 Consulting	Life Insurance	Mergers & Acquisitions	
	Human Capital Management	Health Care Consulting	
Internal Audit	Payroll Services	Government Relations	
Fraud Detection	Specialty Life Insurance		
Real Estate Advisory	Actuarial Services		

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.

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

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

	THREE MONTHS ENDED JUNE 30, 2007					
	Financial Services	Employee Services	CBIZ MMP	National Practices	Corporate and Other	Total
Revenue	\$ 69,675	\$ 42,142	\$ 32,116	\$ 13,013	\$	\$ 156,946
Operating expenses	59,432	33,165	26,639	11,491	5,100	135,827
Gross margin	10,243	8,977	5,477	1,522	(5,100)	21,119
Corporate general & admin					6,508	6,508
Depreciation & amortization	819	986	957	59	1,180	4,001
Operating income (loss)	9,424	7,991	4,520	1,463	(12,788)	10,610
Other income (expense):						
Interest expense	(12)	(7)			(1,396)	(1,415)
Gain on sale of operations, net					10	10
Other income, net	85	483	47	3	1,371	1,989
Total other income (expense)	73	476	47	3	(15)	584
Income (loss) from continuing operations before income tax expense	\$ 9,497	\$ 8,467	\$ 4,567	\$ 1,466	\$ (12,803)	\$ 11,194

	THREE MONTHS ENDED JUNE 30, 2006					
	Financial Services	Employee Services	CBIZ MMP	National Practices	Corporate and Other	Total
Revenue	\$ 63,365	\$ 38,842	\$ 30,046	\$ 13,997	\$	\$ 146,250
Operating expenses	54,393	29,957	24,137	11,251	4,113	123,851
Gross margin	8,972	8,885	5,909	2,746	(4,113)	22,399
Corporate general & admin					7,333	7,333
Depreciation & amortization	884	843	796	64	1,362	3,949

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Operating income (loss)	8,088	8,042	5,113	2,682	(12,808)	11,117
Other income (expense):						
Interest expense	(22)	(1)			(842)	(865)
Gain on sale of operations, net					7	7
Other income (expense), net	93	666	21	2	(286)	496
Total other income (expense)	71	665	21	2	(1,121)	(362)
Income (loss) from continuing operations before income tax expense	\$ 8,159	\$ 8,707	\$ 5,134	\$ 2,684	\$ (13,929)	\$ 10,755

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

	SIX MONTHS ENDED JUNE 30, 2007					
	Financial	Employee	CBIZ	National	Corporate and Other	Total
	Services	Services	MMP	Practices		
Revenue	\$ 162,405	\$ 86,447	\$ 61,724	\$ 25,322	\$	\$ 335,898
Operating expenses	124,846	66,816	52,514	22,976	10,511	277,663
Gross margin	37,559	19,631	9,210	2,346	(10,511)	58,235
Corporate general & admin					14,096	14,096
Depreciation & amortization	1,651	1,869	1,748	118	2,570	7,956
Operating income (loss)	35,908	17,762	7,462	2,228	(27,177)	36,183
Other income (expense):						
Interest expense	(30)	(7)			(2,354)	(2,391)
Gain on sale of operations, net					105	105
Other income, net	179	931	93	16	1,377	2,596
Total other income (expense)	149	924	93	16	(872)	310
Income (loss) from continuing operations before income tax expense	\$ 36,057	\$ 18,686	\$ 7,555	\$ 2,244	\$ (28,049)	\$ 36,493

	SIX MONTHS ENDED JUNE 30, 2006					
	Financial	Employee	CBIZ	National	Corporate and Other	Total
	Services	Services	MMP	Practices		
Revenue	\$ 147,466	\$ 77,982	\$ 58,268	\$ 25,437	\$	\$ 309,153
Operating expenses	113,835	60,515	48,821	21,975	10,073	255,219
Gross margin	33,631	17,467	9,447	3,462	(10,073)	53,934
Corporate general & admin					14,065	14,065
Depreciation & amortization	1,774	1,539	1,645	126	2,707	7,791
Operating income (loss)	31,857	15,928	7,802	3,336	(26,845)	32,078

Other income (expense):						
Interest expense	(48)	(2)			(1,607)	(1,657)
Gain on sale of operations, net					7	7
Other income, net	143	867	12	17	692	1,731
Total other income (expense)	95	865	12	17	(908)	81
Income (loss) from continuing operations before income tax expense	\$ 31,952	\$ 16,793	\$ 7,814	\$ 3,353	\$ (27,753)	\$ 32,159

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Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to *we*, *our*, *CBIZ*, or the *Company* shall mean CBIZ, Inc., a Delaware corporation, and its operating subsidiaries.

The following discussion is intended to assist in the understanding of CBIZ's financial position at June 30, 2007 and December 31, 2006, results of operations and cash flows for the three and six months ended June 30, 2007 and 2006, and should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2006.

Overview

CBIZ provides professional business services that help clients manage their finances, employees and technology. These services are provided to businesses of various sizes, as well as individuals, governmental entities and not-for-profit enterprises throughout the United States and Toronto, Canada. CBIZ delivers its integrated services through four practice groups. A general description of services provided by practice group, is provided in the table below.

Financial Services	Employee Services	National Practices	CBIZ MMP
Accounting	Group Health	Managed Networking and	Coding and Billing
Tax	Property & Casualty	Hardware Services	Accounts Receivable
Financial Advisory	COBRA / Flex	IT Consulting	Management
Litigation Support	Retirement Planning	Project Management	Full Practice Management
Valuation	Wealth Management	Software Solutions	Services
Sarbanes-Oxley 404	Life Insurance	Mergers & Acquisitions	
Consulting	Human Capital Management	Health Care Consulting	
Internal Audit	Payroll Services	Government Relations	
Fraud Detection	Specialty Life Insurance		
Real Estate Advisory	Actuarial Services		

Certain external relationships and regulatory factors currently impacting CBIZ's practice groups are provided in the discussion below.

Financial Services

Restrictions imposed by independence requirements and state accountancy laws and regulations preclude CBIZ from rendering audit and attest services (other than internal audit services). As such, CBIZ and its subsidiaries maintain joint-referral relationships and administrative service agreements (ASAs) with independent licensed Certified Public Accounting (CPA) firms under which audit and attest services may be provided to CBIZ's clients by such CPA firms. These firms are owned by licensed CPAs, a vast majority of whom are also employed by CBIZ subsidiaries. Under these ASAs, CBIZ provides a range of services to the CPA firms, including (but not limited to): administrative functions such as office management, bookkeeping, and accounting; preparing marketing and promotion materials; providing office space, computer equipment, and systems support; and leasing administrative and professional staff. Services are performed in exchange for a fee. Fees earned by CBIZ under the ASAs are recorded as revenue in the accompanying consolidated statements of operations and amounted to approximately \$19.6 million and \$20.6 million for the three months and \$45.4 million and \$40.4 million for the six months ended June 30, 2007 and 2006, respectively. The majority of these fees are related to services rendered to privately-held clients. 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. The ASAs have terms of up to eighteen years, are renewable upon agreement by both parties, and have certain rights of extension and termination.

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With respect to CPA firm clients that are required to file audited financial statements with the SEC, the SEC staff views CBIZ and the CPA firms with which we have contractual relationships as a single entity in applying independence rules established by the accountancy regulators and the SEC. Accordingly, we do not hold any financial interest in an SEC-reporting attest client of an associated CPA firm, enter into any business relationship with an SEC-reporting attest client that the CPA firm performing an audit could not maintain, or sell any non-audit services to an SEC-reporting attest client that the CPA firm performing an audit could not maintain, under the auditor independence limitations set out in the Sarbanes-Oxley Act of 2002 and other professional accountancy independence standards. Applicable professional standards generally permit the Financial Services practice group to provide additional services to privately-held companies, in addition to those services which may be provided to SEC-reporting attest clients of an associated CPA firm. CBIZ and the CPA firms with which we are associated have implemented policies and procedures designed to enable us to maintain independence and freedom from conflicts of interest in accordance with applicable standards. Given the pre-existing limits set by CBIZ on its relationships with SEC-reporting attest clients of associated CPA firms, and the limited number and size of such clients, the imposition of Sarbanes-Oxley Act independence limitations did not and is not expected to materially affect CBIZ revenues. The CPA firms with which CBIZ maintains ASAs may operate as limited liability companies, limited liability partnerships or professional corporations. The firms are separate legal entities with separate governing bodies and officers. 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 their respective services. Attest services can not be performed by any individual or entity which is not licensed to do so. CBIZ can not perform audits, reviews, compilations, or other attest services, does not contract to perform them and does not provide audit, review, compilation, or other attest reports. Given this legal prohibition and course of conduct, CBIZ does not believe it is likely that we would bear the risk of litigation losses related to attest services provided by the CPA firms.

Although the ASAs do not constitute control, CBIZ is one of the beneficiaries of the agreements and may bear certain economic risks. As such, the CPA firms with which CBIZ maintains administrative service agreements qualify as variable interest entities under FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), as amended. See further discussion in Note 1 of the consolidated financial statements included herewith.

Employee Services

CBIZ's Employee Services group maintains relationships with many different insurance carriers. Some of these carriers have compensation arrangements with CBIZ whereby some portion of payments due may be contingent upon meeting certain performance goals, or upon CBIZ providing client services that would otherwise be provided by the carriers. These compensation arrangements are provided to CBIZ as a result of our performance and expertise, and may result in enhancing CBIZ's ability to access certain insurance markets and services on behalf of CBIZ clients. The aggregate of these payments received during the three and six months ended June 30, 2007 and 2006 were approximately 2% of consolidated CBIZ revenue for the respective periods.

State insurance regulators have conducted inquiries to clarify the nature of compensation arrangements within the insurance brokerage industry. To date, CBIZ, along with other major insurance brokerage companies, has received requests for information regarding our compensation arrangements related to these practices from such authorities. In addition to inquiries from various states' insurance departments, CBIZ has received subpoenas from the New York Attorney General, the Connecticut Attorney General, and the Ohio Department of Insurance regarding its insurance brokerage compensation arrangements. CBIZ has cooperated fully in each inquiry. CBIZ has discussed the nature of these inquiries and compensation arrangements with each of the major insurance carriers with whom we have established these arrangements. We believe that our arrangements are lawful and consistent with industry practice, and we expect that any changes to compensation arrangements in the future will have a minimal impact on CBIZ, barring future regulatory action. Future regulatory action may limit or eliminate our ability to enhance

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revenue through all current compensation arrangements, and may result in a diminution of future revenue from these sources.

Medical Management Professionals

Changes in some managed care plans and federal Medicare and Medicaid physician and practice expense reimbursement rules and rates have, and are expected to continue to, adversely affect revenue in our existing physician and medical billing and collections business. The Deficit Reduction Act of 2005 (Deficit Reduction Act) provides for a reduction and cap beginning in 2007 of reimbursement for certain fees and charges related to imaging services and facilities of offices, imaging centers and independent diagnostic testing facilities. In addition, certain managed care payors may impose precertification and other management programs which could limit or control the use of, and reimbursement for, imaging and diagnostic services. Certain managed care payors may institute Pay for Performance and quality initiative programs that could limit or control physician, office and facility, and practice services and procedures, as well as reimbursement costs, and replace volume-based payment methods. Since our physician and medical billing and collections business is typically paid a portion of the revenue collected on behalf of our clients, any reduction in the volume of services or reimbursement rates for such services or expenses for which our clients are eligible to be paid may adversely affect our ability to generate revenue and maintain margins. CBIZ will make its best efforts to take appropriate actions to maintain margins in this business, however there is no assurance that we will be able to maintain margins at historic levels. These changes in reimbursement rates may provide CBIZ with the opportunity to increase the number of clients to which medical coding and billing services are provided, as they may cause physicians who do not currently utilize third party providers to consider the use of CBIZ's medical coding and billing services.

Executive Summary

In accordance with our strategy to strengthen operations and customer service capabilities by selectively acquiring businesses that expand our market position and strengthen our existing service offerings, CBIZ acquired two business during the six months ended June 30, 2007. During the first quarter of 2007, CBIZ acquired an accounting and tax firm located in Phoenix, Arizona, which is reported in the Financial Services practice group. During the second quarter, CBIZ acquired a medical billing service company located in Montgomery, Alabama, which is reported in CBIZ MMP.

In an on-going effort to rationalize our business, CBIZ has divested (and may continue to divest), business units that do not contribute to our long-term objectives for growth, or that are not complementary to our target service offerings and markets. During the first six months of 2007, CBIZ sold two business units which were classified as discontinued operations (available for sale) at December 31, 2006. One of these business units offered accounting and tax services and was previously reported in the Financial Services practice group. The second business unit offered specialty insurance services and was previously reported in the Employee Services practice group.

During the second quarter of 2007, CBIZ identified two business units that did not meet the Company's objectives for growth or did not complement the core services. These two business units, both in the Financial Services practice group, were classified as discontinued operations and all historical information has been reclassified to reflect this classification.

CBIZ continually strives to create value for our shareholders, and believes that repurchasing shares of its common stock is a use of cash that provides such value. Accordingly, CBIZ purchased approximately 1.0 million shares of its common stock in the open market at a total cost of \$6.9 million during the second quarter of 2007. For the six months ended June 30, 2007, CBIZ purchased approximately 3.5 million shares of its common stock at a total cost of \$24.6 million.

At the Annual Meeting of Stockholders of CBIZ, Inc. held on May 17, 2007, the stockholders approved the 2007 Employee Stock Purchase Plan. Under this plan, employees of CBIZ will be able to purchase shares of common stock at the market rate less a discount. This plan is expected to be implemented during the third quarter of 2007.

Table of Contents**Results of Operations Continuing Operations**

Same-unit revenue represents total revenue adjusted to reflect comparable periods of activity for acquisitions and divestitures. For example, for a business acquired on June 1, 2006, revenue for the month of June would be included in same-unit revenue for second quarter of both years; revenue for the period January 1, 2007 through May 31, 2007 would be reported as revenue from acquired businesses.

Revenue from divested operations represents operations that were sold or closed and did not meet the criteria for treatment as discontinued operations.

Three months ended June 30, 2007 and 2006*Revenue*

The following table summarizes total revenue for the three months ended June 30, 2007 and 2006 (in thousands, except percentages).

	THREE MONTHS ENDED JUNE 30,					
	2007	% of Total	2006	% of Total	\$ Change	% Change
<i>Same-unit revenue</i>						
Financial Services	\$ 69,214	44.1%	\$ 63,210	43.2%	\$ 6,004	9.5%
Employee Services	42,142	26.8%	38,842	26.6%	3,300	8.5%
CBIZ MMP	31,211	19.9%	30,046	20.5%	1,165	3.9%
National Practices	13,013	8.3%	13,997	9.6%	(984)	(7.0)%
Total same-unit revenue	155,580	99.1%	146,095	99.9%	9,485	6.5%
Acquired businesses	1,366	0.9%			1,366	
Divested operations			155	0.1%	(155)	
Total revenue	\$ 156,946		\$ 146,250		\$ 10,696	

A detailed discussion of revenue by practice group is included under *Operating Practice Groups* below.

Operating expenses Operating expenses increased to \$135.8 million for the three months ended June 30, 2007, from \$123.9 million for the comparable period in 2006, an increase of \$11.9 million or 9.6%. As a percentage of revenue, operating expenses were 86.5% and 84.7% for the three months ended June 30, 2007 and 2006, respectively. The primary components of operating expenses are personnel costs and occupancy expense, representing 81.8% and 82.1% of total operating expenses and 70.7% and 69.5% of revenue for the three months ended June 30, 2007 and 2006, respectively. The increase in personnel and occupancy costs as a percentage of revenue was primarily the result of a \$1.3 million increase in personnel costs due to appreciation in the fair value of investments held in relation to the deferred compensation plan. This increase in compensation was offset by the same increase to other income and thus, did not impact CBIZ's net income.

Gross margin Since the majority of our operating costs are relatively fixed in the short term, gross margin as a percentage of revenue normally improves with revenue growth. However, for the three months ended June 30, 2007 versus the comparable period in 2006, gross margin declined to 13.5% from 15.3%. This decline was caused by several factors including the additional personnel costs discussed under operating expenses above, the impact of the Deficit Reduction Act on our Medical Management Practice group, and the result of two transactions completed by our merger and acquisition business during the second quarter of 2006 that did not reoccur in 2007. Operating expenses and gross margin by practice group are discussed in further detail under *Operating Practice Groups* below.

Corporate general and administrative expenses Corporate general and administrative expenses decreased to \$6.5 million and 4.1% of revenue for the three months ended June 30, 2007, from \$7.3 million and 5.0% of revenue for the comparable period in 2006. The decrease in corporate general and

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administrative expenses was primarily attributable to lower compensation costs during the second quarter of 2007 compared to the second quarter of 2006, including costs associated with the incentive compensation plan and restricted performance stock awards. Incentive compensation is estimated and accrued on a monthly basis (see further discussion in the Critical Accounting Policies Incentive Compensation). The restricted performance awards were terminated in the fourth quarter of 2006.

Depreciation and amortization expense Depreciation and amortization expense was \$4.0 million and 2.5% of revenue for the three months ended June 30, 2007, compared to \$3.9 million and 2.7% of revenue for the comparable period in 2006. The increase in depreciation and amortization expense was primarily due to an increase in the amortization of intangible assets as the result of businesses and client lists that were acquired.

Interest expense Interest expense was \$1.4 million and \$0.9 million for the three-month periods ended June 30, 2007 and 2006, respectively. Average debt was \$132.9 million for the three months ended June 30, 2007, compared to \$75.2 million for the comparable period in 2006, and average interest rates were 4.2% and 4.8% during the three months ended June 30, 2007 and 2006, respectively. Higher average debt and lower average interest rates in the second quarter of 2007 compared to the second quarter of 2006, was primarily the result of CBIZ completing a \$100.0 million offering of convertible senior subordinated notes (Notes) on May 30, 2006 which carry a fixed interest rate of 3.125%. See Note 4 to the accompanying consolidated financial statements for further discussion of these notes.

Other income, net Other income, net was \$2.0 million for the three months ended June 30, 2007, and \$0.5 million for the comparable period in 2006, an increase of \$1.5 million. Other income (expense), net is comprised primarily of adjustments to the fair value of investments held in a rabbi trust related to the deferred compensation plan, gains and losses on sales of assets, and miscellaneous income such as contingent royalties from previous divestitures. Adjustments to the fair value of investments related to the deferred compensation plan are offset by adjustments to compensation costs which are recorded as operating or corporate general and administrative expenses in the consolidated statements of operations, and thus do not have an impact on CBIZ's net income. The increase in other income during the second quarter of 2007 from the comparable period in 2006 was primarily the result of an increase in the fair value of investments related to the deferred compensation plan and an increase in interest income as a result of tax refunds. In addition, CBIZ recognized a one-time life insurance benefit of \$0.4 million during the second quarter of 2006 that did not occur in 2007.

Income tax expense CBIZ recorded income tax expense from continuing operations of \$4.8 million and \$4.4 million for the three months ended June 30, 2007 and 2006, respectively. The effective tax rate for the three months ended June 30, 2007 was 42.5%, compared to an effective rate of 41.0% for the comparable period in 2006. The increase in the effective tax rate for the second quarter of 2007 versus the comparable period in 2006 was primarily the result of an increase in estimated tax reserves related to the IRS audits discussed in Note 1 to these consolidated financial statements.

Operating Practice Groups*Financial Services.*

	THREE MONTHS ENDED JUNE 30,		
	2007	2006	Change
	(Dollars in thousands)		
Revenue			
Same-unit	\$ 69,214	\$ 63,210	\$ 6,004
Acquired businesses	461		461
Divested operations		155	(155)
Total revenue	\$ 69,675	\$ 63,365	\$ 6,310
Operating expenses	59,432	54,393	5,039
Gross margin	\$ 10,243	\$ 8,972	\$ 1,271

Gross margin percent	24	14.7%	14.2%	0.5%
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The growth in same-unit revenue was primarily due to an increase in the aggregate number of hours charged to clients for consulting, valuation and litigation support services, and price increases for traditional accounting and tax services. The growth in revenue from acquired businesses was provided by a firm in Phoenix, Arizona which was acquired during the first quarter of 2007. Revenue from divested operations represents an office that was sold during the first quarter of 2007.

The largest components of operating expenses for the Financial Services practice group are personnel costs, occupancy costs and travel and meal costs representing 90.4% and 90.7% of total operating expenses for the three months ended June 30, 2007 and 2006, respectively. Personnel costs increased \$3.9 million, but decreased as a percentage of revenue to 67.9% for the three months ended June 30, 2007 from 68.4% of revenue for the comparable period in 2006. The dollar increase in personnel costs was primarily due to additional salary costs incurred for new employees, annual merit increases, and an increase in benefit costs. CBIZ continues to add personnel in the Financial Services practice group in order to accommodate revenue growth. Occupancy costs are relatively fixed in nature but increased \$0.2 million while decreasing as a percentage of revenue to 5.9% for the three months ended June 30, 2007 from 6.2% for the comparable period in 2006. The dollar increase was primarily due to additional space required in certain facilities to accommodate growth. Travel and meal costs increased \$0.2 million and were 3.3% of revenue for the three months ended June 30, 2007 and 2006.

Gross margin improvement is primarily due to leveraging the increase in revenues against increases in personnel and occupancy costs. Margin improvement was partially offset by an increase in recruiting costs of \$0.3 million to 0.9% of revenue for the three months ended June 30, 2007 from 0.6% for the comparable period in 2006. CBIZ continues to recruit experienced professionals to service new and existing clients.

Employee Services.

	THREE MONTHS ENDED JUNE 30,		
	2007	2006	Change
	(Dollars in thousands)		
Revenue			
Same-unit	\$ 42,142	\$ 38,842	\$ 3,300
Acquired businesses			
Total revenue	\$ 42,142	\$ 38,842	\$ 3,300
Operating expenses	33,165	29,957	3,208
Gross margin	\$ 8,977	\$ 8,885	\$ 92
Gross margin percent	21.3%	22.9%	(1.6)%

The increase in same-unit revenue was primarily attributable to growth in our retail and payroll services businesses. The largest components of operating expenses for the Employee Services practice group are personnel costs, including commissions paid to third party brokers, and occupancy costs, representing 85.8% and 86.2% of total operating expenses for the three months ended June 30, 2007 and 2006, respectively. Personnel costs increased \$2.7 million, and increased as a percentage of revenue to 62.2% for the second quarter of 2007 from 60.6% for the comparable period in 2006. Personnel cost dollars increased with the growth in revenue as the sales force is compensated on a variable basis. Personnel costs increased as a percentage of revenue due to investments in leadership, sales and service personnel to better position the practice group for future growth. Occupancy costs were \$2.2 million during the second quarters of 2007 and 2006.

The decrease in gross margin as a percentage of revenue for the three months ended June 30, 2007 compared to the comparable period in 2006 was primarily due to the investments in personnel discussed previously.

Table of Contents*CBIZ Medical Management Professionals (CBIZ MMP).*

	THREE MONTHS ENDED JUNE 30,		
	2007	2006	Change
	(Dollars in thousands)		
Revenue			
Same-unit	\$ 31,211	\$ 30,046	\$ 1,165
Acquired businesses	905		905
Total revenue	\$ 32,116	\$ 30,046	\$ 2,070
Operating expenses	26,639	24,137	2,502
Gross margin	\$ 5,477	\$ 5,909	\$ (432)
Gross margin percent	17.1%	19.7%	(2.6)%

The increase in same-unit revenue was primarily attributable to growth by existing clients and the maturation of clients obtained in 2006. Revenue growth was partially offset by impacts of the Deficit Reduction Act, which is further described under [Overview](#) [Medical Management Professionals](#). The growth in revenue from acquired businesses was provided by a medical billing business based in Montgomery, Alabama which was acquired during the second quarter of 2007.

The largest components of operating expenses for CBIZ MMP are personnel costs, occupancy costs and office expenses (primarily postage), representing 88.6% and 88.7% of total operating expenses for the three months ended June 30, 2007 and 2006, respectively. Personnel costs increased by \$2.1 million and increased as a percentage of revenue to 58.8% for the three months ended June 30, 2007, from 55.7% of revenue for the comparable period in 2006. Acquired businesses contributed \$0.4 million of the increase in personnel costs; the remaining increase was primarily attributable to annual merit increases. Occupancy costs are relatively fixed in nature and were approximately \$2.0 million for the three months ended June 30, 2007 and 2006. Office expenses did not change for the three months ended June 30, 2007 from the comparable period in 2006, but decreased as a percentage of revenue to 8.4% from 8.9%.

The decrease in gross margin was primarily due to impacts of the Deficit Reduction Act. The Deficit Reduction Act changed some managed care plans and federal Medicare and Medicaid physician and practice expense reimbursement rules and rates. Since MMP is typically paid a portion of the revenue collected on behalf of its clients, the reduction in client revenue that resulted from the Act had an adverse affect on our revenue and margins.

National Practices.

	THREE MONTHS ENDED JUNE 30,		
	2007	2006	Change
	(Dollars in thousands)		
Revenue			
Same-unit	\$ 13,013	\$ 13,997	\$ (984)
Acquired businesses			
Total revenue	\$ 13,013	\$ 13,997	\$ (984)
Operating expenses	11,491	11,251	240
Gross margin	\$ 1,522	\$ 2,746	\$ (1,224)

Gross margin percent	11.7%	19.6%	(7.9)%
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The decrease in revenue was primarily attributable to our mergers and acquisitions business completing two large transactions during the second quarter of 2006 and no transactions during the second quarter of 2007. This decrease was partially offset by an increase in consulting revenue at our technology businesses during the second quarter of 2007 versus the comparable of 2006, which was largely attributable to a special project with our largest customer.

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The largest components of operating expenses for the National Practices group are personnel costs, direct costs and occupancy costs, representing 91.9% and 92.3% of total operating expenses for the three months ended June 30, 2007 and 2006, respectively. Collectively, these expenses increased by \$0.2 million to 81.1% of revenue for the three months ended June 30, 2007 from 74.2% of revenue for the comparable period in 2006. As the increase in the expenses was not significant, the increase in the expenses as a percentage of revenue was the result of the decline in revenue discussed above.

The decline in gross margin as a percentage of revenue for the three months ended June 30, 2007 from the three months ended June 30, 2006, was the result of the two transactions completed by our mergers and acquisitions business during the second quarter of 2006 that did not recur in 2007. Transactions completed by the mergers and acquisitions business typically result in a large amount of revenue for CBIZ, with minimal incremental cost; thus the number and size of transactions completed by the mergers and acquisition business may have a significant impact on gross margin.

Six months ended June 30, 2007 and 2006***Revenue***

The following table summarizes total revenue for the six months ended June 30, 2007 and 2006 (in thousands, except percentages).

	SIX MONTHS ENDED JUNE 30,					
	2007	% of Total	2006	% of Total	\$ Change	% Change
<i>Same-unit revenue</i>						