

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)

	<b>JUNE 30,</b>	<b>DECEMBER</b>
	<b>2007</b>	<b>31,</b>
		<b>2006</b>
<b>ASSETS</b>		
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
<b>LIABILITIES</b>		
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
<b>STOCKHOLDERS EQUITY</b>		
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)

	<b>THREE MONTHS</b>		<b>SIX MONTHS ENDED</b>	
	<b>ENDED</b>		<b>JUNE 30,</b>	
	<b>JUNE 30,</b>		<b>JUNE 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
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

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)

	<b>SIX MONTHS ENDED</b>	
	<b>JUNE 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
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
<b>Cash flows from investing activities:</b>		
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)
<b>Cash flows from financing activities:</b>		
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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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'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