

CBIZ, Inc.
Form 10-Q
November 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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 1-32961

CBIZ, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-2769024
(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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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
 Common Stock, par value \$0.01 per share

Outstanding at October 31, 2013
 47,395,494

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Table of ContentsPART I FINANCIAL INFORMATION**Item 1. Financial Statements****CBIZ, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Unaudited)****(In thousands)**

	SEPTEMBER 30, 2013	DECEMBER 31, 2012 (As Adjusted)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,553	\$ 899
Restricted cash	24,963	19,627
Accounts receivable, net	161,715	136,815
Deferred income taxes current	8,092	7,862
Other current assets	12,236	10,934
Assets of discontinued operations	24	103,291
Current assets before funds held for clients	210,583	279,428
Funds held for clients	103,645	154,447
Total current assets	314,228	433,875
Property and equipment, net	18,487	17,783
Goodwill and other intangible assets, net	470,909	469,571
Assets of deferred compensation plan	47,922	39,779
Deferred income taxes non-current, net		621
Other assets	7,238	8,563
Total assets	\$ 858,784	\$ 970,192
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 33,667	\$ 35,395
Income taxes payable current	38,702	1,372
Accrued personnel costs	36,275	34,882
Notes payable current	5,127	5,464
Contingent purchase price liability	15,583	12,844
Other current liabilities	17,571	14,880
Liabilities of discontinued operations	193	14,144
Current liabilities before client fund obligations	147,118	118,981
Client fund obligations	103,539	154,119

Total current liabilities	250,657	273,100
Convertible notes, net	124,520	122,416
Bank debt	40,000	208,900
Income taxes payable non-current	6,097	4,009
Deferred income taxes non-current, net	81	
Deferred compensation plan obligations	47,922	39,779
Contingent purchase price liability	15,278	17,168
Other non-current liabilities	10,419	9,588
Total liabilities	494,974	674,960
STOCKHOLDERS EQUITY		
Common stock	1,131	1,124
Additional paid-in capital	566,037	560,810
Retained earnings	194,941	105,131
Treasury stock	(397,548)	(371,080)
Accumulated other comprehensive loss	(751)	(753)
Total stockholders equity	363,810	295,232
Total liabilities and stockholders equity	\$ 858,784	\$ 970,192

See the accompanying notes to the consolidated financial statements

Table of Contents**CBIZ, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)****(In thousands, except per share data)**

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,	SEPTEMBER 30,	SEPTEMBER 30,	SEPTEMBER 30,
	2013	2012	2013	2012
Revenue	\$ 168,839	\$ 149,841	\$ 542,784	\$ 491,603
Operating expenses	150,935	137,204	462,560	422,783
Gross margin	17,904	12,637	80,224	68,820
Corporate general and administrative expenses	8,944	7,475	26,577	25,594
Operating income	8,960	5,162	53,647	43,226
Other income (expense):				
Interest expense	(3,815)	(3,576)	(12,016)	(11,198)
Gain on sale of operations, net	6	21	72	2,660
Other income, net	2,371	2,541	4,614	5,022
Total other expense, net	(1,438)	(1,014)	(7,330)	(3,516)
Income from continuing operations before income tax expense	7,522	4,148	46,317	39,710
Income tax expense	2,441	1,066	18,882	15,681
Income from continuing operations after income tax expense	5,081	3,082	27,435	24,029
Income from discontinued operations, net of tax	964	2,193	4,132	5,839
Gain on disposal of discontinued operations, net of tax	56,315	32	58,243	72
Net income	\$ 62,360	\$ 5,307	\$ 89,810	\$ 29,940
Earnings per share:				
Basic:				
Continuing operations	\$ 0.10	\$ 0.06	\$ 0.56	\$ 0.49
Discontinued operations	1.18	0.05	1.27	0.12
Net income	\$ 1.28	\$ 0.11	\$ 1.83	\$ 0.61
Diluted:				
Continuing operations	\$ 0.10	\$ 0.06	\$ 0.55	\$ 0.49
Discontinued operations	1.17	0.05	1.26	0.12
Net income	\$ 1.27	\$ 0.11	\$ 1.81	\$ 0.61

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Basic weighted average shares outstanding	48,504	48,895	49,187	49,014
Diluted weighted average shares outstanding	49,003	49,109	49,537	49,278
Comprehensive Income:				
Net income	\$ 62,360	\$ 5,307	\$ 89,810	\$ 29,940
Other comprehensive income, net of tax	65	53	2	50
Comprehensive income	\$ 62,425	\$ 5,360	\$ 89,812	\$ 29,990

See the accompanying notes to the consolidated financial statements

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2013	2012
<u>Cash flows from operating activities:</u>		
Net income	\$ 89,810	\$ 29,940
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Income from discontinued operations, net of tax	(4,132)	(5,839)
Gain on disposal of discontinued operations, net of tax	(58,243)	(72)
Gain on sale of operations, net	(72)	(2,660)
Depreciation and amortization expense	14,144	12,473
Amortization of discount on notes and deferred financing costs	3,399	3,111
Bad debt expense, net of recoveries	3,522	3,552
Adjustment to contingent earnout liability	1,176	(259)
Deferred income taxes	126	(1,059)
Employee stock awards	4,274	4,377
Excess tax benefits from share based payment arrangements	(25)	
<i>Changes in assets and liabilities, net of acquisitions and divestitures:</i>		
Restricted cash	(5,357)	(508)
Accounts receivable, net	(28,291)	(33,301)
Other assets	(323)	1,131
Accounts payable	(2,706)	4,677
Income taxes payable/refundable	(11,761)	8,267
Accrued personnel costs and other liabilities	(158)	3,192
Net cash provided by continuing operations	5,383	27,022
Operating cash flows provided by discontinued operations	5,212	10,628
Net cash provided by operating activities	10,595	37,650
<u>Cash flows from investing activities:</u>		
Business acquisitions and contingent consideration, net of cash acquired	(5,014)	(26,669)
Purchases of client fund investments	(4,965)	(5,182)
Proceeds from the sales and maturities of client fund investments	4,145	4,056
Proceeds from sales of divested and discontinued operations	200,927	1,367
Net decrease in funds held for clients	51,405	24,992
Additions to property and equipment, net	(4,285)	(1,579)
Other	86	40
Net cash flows provided by (used in) continuing operations	242,299	(2,975)

Investing cash flows used in discontinued operations	(300)	(1,533)
Net cash provided by (used in) investing activities	241,999	(4,508)
Cash flows from financing activities:		
Proceeds from bank debt	281,000	384,350
Payment of bank debt	(449,900)	(383,350)
Payment for acquisition of treasury stock	(26,468)	(5,716)
Net decrease in client funds obligations	(50,580)	(23,814)
Proceeds from exercise of stock options	576	
Payment of contingent consideration of acquisitions	(4,593)	(5,204)
Excess tax benefit from exercise of stock awards	25	
Other		(567)
Net cash used in financing activities	(249,940)	(34,301)
Net increase (decrease) in cash and cash equivalents	2,654	(1,159)
Cash and cash equivalents at beginning of year	899	1,613
Cash and cash equivalents at end of period	\$ 3,553	\$ 454

See the accompanying notes to the consolidated financial statements

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CBIZ, INC. AND SUBSIDIARIES

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

1. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. 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 or the Company) as of September 30, 2013 and December 31, 2012, the consolidated results of their operations for the three and nine months ended September 30, 2013 and 2012, and the cash flows for the nine months ended September 30, 2013 and 2012. 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, 2012.

Divestiture of Medical Management Professionals

On July 26, 2013, CBIZ, through its subsidiary CBIZ Operations, Inc., an Ohio Corporation, entered into an agreement with Zotec Partners, LLC, an Indiana limited liability company, to sell all of the issued and outstanding capital stock of each of CBIZ Medical Management Professionals, Inc., an Ohio corporation, and CBIZ Medical Management, Inc., a North Carolina corporation, and substantially all of the stock of their subsidiary companies, collectively consisting of all of CBIZ 's Medical Management Professionals ongoing operations and business (MMP). The sale of MMP was completed on August 30, 2013 for a total purchase price of \$201.6 million, subject to final working capital adjustments. After transaction costs and taxes, CBIZ estimates proceeds of approximately \$145.4 million. As a result of the completion of the divestiture of MMP, the assets and liabilities as well as the operations of MMP are reflected as discontinued operations on this Form 10-Q. See Note 13 for further discussion of discontinued operations and divestitures.

Stock Purchase Agreement with Westbury Ltd.

On August 30, 2013, concurrent with the sale of MMP, CBIZ completed an agreement with Westbury (Bermuda) Ltd., a Bermuda exempted company (Westbury), Westbury Trust, a Bermuda trust, and Michael G. DeGroote, the founder of CBIZ, to purchase from Westbury 3.85 million shares of the Company 's common stock, which was 50% of Westbury 's current holdings of the Company 's common stock, at a price of \$6.65 per share.

Principles of Consolidation

The accompanying consolidated financial statements reflect the operations of CBIZ, Inc. 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 CBIZ 's Annual Report on Form 10-K for the year ended December 31, 2012 for further discussion.

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 collectability of accounts receivable and unbilled revenue, the realizability of goodwill and other intangible assets, the

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

fair value of certain assets, the valuation of stock options in determining compensation expense, estimates of accrued liabilities (such as incentive compensation, self-funded health insurance accruals, legal reserves, income tax uncertainties, contingent purchase price obligations, and consolidation and integration reserves), the provision for income taxes, the realizability of deferred tax assets, 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.

Revenue Recognition and Valuation of Unbilled Revenues

Revenue is recognized only when all of the following are present: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee to the client is fixed or determinable, and collectability is reasonably assured. CBIZ offers a vast array of products and business services to its clients. Those services are delivered through three practice groups. A description of revenue recognition policies is included in the Annual Report on Form 10-K for the year ended December 31, 2012.

2. Accounts Receivable, Net

Accounts receivable balances at September 30, 2013 and December 31, 2012 were as follows (in thousands):

	September 30, 2013	December 31, 2012 (As Adjusted)
Trade accounts receivable	\$ 111,144	\$ 107,802
Unbilled revenue	61,826	40,762
Total accounts receivable	172,970	148,564
Allowance for doubtful accounts	(11,255)	(11,749)
Accounts receivable, net	\$ 161,715	\$ 136,815

3. Goodwill and Other Intangible Assets, Net

The components of goodwill and other intangible assets, net at September 30, 2013 and December 31, 2012 were as follows (in thousands):

September 30, December 31,

	2013	2012 (As Adjusted)
Goodwill	\$ 383,260	\$ 375,122
<i>Intangible assets:</i>		
Client lists	136,412	134,987
Other intangible assets	8,297	8,501
Total intangible assets	144,709	143,488
Total goodwill and intangibles assets	527,969	518,610
<i>Accumulated amortization:</i>		
Client lists	(51,793)	(44,293)
Other intangible assets	(5,267)	(4,746)
Total accumulated amortization	(57,060)	(49,039)
Goodwill and other intangible assets, net	\$ 470,909	\$ 469,571

As a result of adjustments to purchase price accounting related to certain acquisitions that were completed in 2012, goodwill at December 31, 2012 was reduced by \$1.4 million.

Table of Contents**CBIZ, INC. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****4. Depreciation and Amortization**

Depreciation and amortization expense for property and equipment and intangible assets for the three and nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Operating expenses	\$ 4,686	\$ 4,130	\$ 13,911	\$ 12,223
Corporate general and administrative expenses	84	82	233	250
Total depreciation and amortization expense	\$ 4,770	\$ 4,212	\$ 14,144	\$ 12,473

5. Borrowing Arrangements

CBIZ had two primary debt arrangements at September 30, 2013 that provided the Company with the capital necessary to meet its working capital needs as well as the flexibility to continue with its strategic initiatives, including business acquisitions and share repurchases: the 2010 Convertible Senior Subordinated Notes (2010 Notes) totaling \$130 million and a \$275 million unsecured credit facility. In addition to the discussion below, refer to the Annual Report on Form 10-K for the year ended December 31, 2012 for additional details of CBIZ's borrowing arrangements.

2010 Convertible Senior Subordinated Notes

On September 27, 2010, CBIZ issued \$130.0 million of 2010 Notes to qualified institutional buyers. The 2010 Notes are direct, unsecured, senior subordinated obligations of CBIZ. The 2010 Notes bear interest at a rate of 4.875% per annum, payable in cash semi-annually in arrears on April 1 and October 1. The 2010 Notes mature on October 1, 2015 unless earlier redeemed, repurchased or converted.

CBIZ separately accounts for the debt and equity components of the 2010 Notes. The carrying amount of the debt and equity components at September 30, 2013 and December 31, 2012 were as follows (in thousands):

	September 30,	December 31,
	2013	2012
Principal amount of notes	\$ 130,000	\$ 130,000
Unamortized discount	(6,230)	(8,334)
Net carrying amount	\$ 123,770	\$ 121,666

Additional paid-in-capital, net of tax	\$	8,555	\$	8,555
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The discount is being amortized at an annual effective rate of 7.5% over the term of the 2010 Notes, which is five years from the date of issuance. At September 30, 2013, the unamortized discount had a remaining amortization period of approximately 24 months.

2006 Convertible Senior Subordinated Notes

At September 30, 2013, CBIZ had \$750,000 outstanding of its 3.125% Convertible Senior Subordinated Notes that were issued in 2006 (2006 Notes). These 2006 Notes are direct, unsecured, senior subordinated obligations of CBIZ. The 2006 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. The 2006 Notes mature on June 1, 2026 unless earlier redeemed, repurchased or converted.

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CBIZ separately accounts for the debt and equity components of the 2006 Notes. The carrying amount of the debt and equity components at September 30, 2013 and December 31, 2012 were as follow (in thousands):

	September 30, 2013	December 31, 2012
Principal amount of notes	\$ 750	\$ 750
Unamortized discount		
Net carrying amount	\$ 750	\$ 750
Additional paid-in-capital, net of tax	\$ 11,425	\$ 11,425

During the three and nine months ended September 30, 2013 and 2012, CBIZ recognized interest expense on the 2010 Notes and 2006 Notes as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Contractual coupon interest	\$ 1,590	\$ 1,590	\$ 4,771	\$ 4,771
Amortization of discount	710	659	2,104	1,954
Amortization of deferred financing costs	180	180	540	540
Total interest expense	\$ 2,480	\$ 2,429	\$ 7,415	\$ 7,265

Bank Debt

CBIZ maintains a \$275 million unsecured credit facility (credit facility) with Bank of America as agent for a group of seven participating banks. The balance outstanding under the credit facility was \$40.0 million and \$208.9 million at September 30, 2013 and December 31, 2012, respectively. The significant decrease in the balance outstanding from December 31, 2012 to September 30, 2013 was due to a portion of the proceeds from the sale of MMP being applied to the credit facility. Rates for the nine months ended September 30, 2013 and 2012 were as follows:

	Nine Months Ended September 30,	
	2013	2012
Weighted average rates	2.96%	3.18%

Range of effective rates	2.40%	3.91%	2.68%	3.91%
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CBIZ had approximately \$138.8 million of available funds under the credit facility at September 30, 2013, net of outstanding letters of credit and performance guarantees of \$4.4 million. 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. The maturity date of the credit facility is June 2015. CBIZ believes it is in compliance with its debt covenants at September 30, 2013.

6. Commitments and Contingencies

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 \$2.5 million as of September 30, 2013 and December 31, 2012. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding at September 30, 2013 and December 31, 2012 was \$2.4 million and \$2.7 million, respectively.

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CBIZ, INC. AND SUBSIDIARIES

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

CBIZ acted as guarantor on various letters of credit for a CPA firm with which it has an affiliation, which totaled \$1.9 million as of September 30, 2013 and December 31, 2012. 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

In 2010, CBIZ, Inc. and its subsidiary, CBIZ MHM, LLC (fka CBIZ Accounting, Tax & Advisory Services, LLC) (the CBIZ Parties), were named as defendants in lawsuits filed in the U.S. District Court for the District of Arizona and the Superior Court for Maricopa County, Arizona. The federal court case is captioned Robert Facciola, et al v. Greenberg Traurig LLP, et al, and the state court cases are captioned Victims Recovery, LLC v. Greenberg Traurig LLP, et al, Roger Ashkenazi, et al v. Greenberg Traurig LLP, et al, Mary Marsh, et al v. Greenberg Traurig LLP, et al; and ML Liquidating Trust v. Mayer Hoffman McCann PC, et al. Prior to these suits CBIZ MHM, LLC was named as a defendant in Jeffery C. Stone v. Greenberg Traurig LLP, et al. The Stone case was subsequently voluntarily dismissed by the plaintiff.

These lawsuits arose out of the bankruptcy of Mortgages Ltd., a mortgage lender to developers in the Phoenix, Arizona area. Various other professional firms not related to the Company were also named defendants in these lawsuits.

Mortgages Ltd. had been audited by Mayer Hoffman McCann PC (Mayer Hoffman), a CPA firm that has an administrative services agreement with CBIZ. The lawsuits assert claims against Mayer Hoffman for, among others things, violations of the Arizona Securities Act, common law fraud, and negligent misrepresentation, and seek to hold the CBIZ Parties vicariously liable for Mayer Hoffman's conduct as either a statutory control person under the Arizona Securities Act or a joint venturer under Arizona common law. CBIZ is not a CPA firm, does not provide audits, and did not audit any of the entities at issue in these lawsuits, nor is CBIZ a control person of, or a joint venture with, Mayer Hoffman.

In June 2011, the Facciola court, in which the plaintiffs were seeking to certify a class of all Mortgages Ltd. investors, granted the motions to dismiss filed by the CBIZ Parties and Mayer Hoffman. After that dismissal order, the plaintiffs moved the court to amend their complaint in an attempt to state a claim against the CBIZ Parties and Mayer Hoffman. In November 2011, the Facciola court denied the plaintiffs' request to amend the complaint as to the CBIZ Parties and Mayer Hoffman. In June 2012, the remaining defendants in the Facciola case reached a class action settlement, which the court approved in October 2012. Eighteen class members, however, opted out of the settlement before it was finalized and, in September 2012, filed a new case against all of the defendants in the Facciola case, including the CBIZ Parties (Rader et al v. Greenberg Traurig, LLC, et al). In December 2012, the Facciola plaintiffs filed an appeal to the U.S. Court of Appeals for the Ninth Circuit of the dismissal of their case against the CBIZ Parties and Mayer Hoffman. That appeal is currently pending.

The plaintiffs, except for the ML Liquidating Trust, are all alleged to have directly or indirectly invested in real estate mortgages through Mortgages Ltd. The Victims Recovery, Ashkenazi and Marsh plaintiffs seek monetary damages

equivalent to their alleged losses on those investments. The ML Liquidating Trust asserts errors and omissions and breach of contract claims and is seeking monetary damages. The Ashkenazi complaint alleges damages of approximately \$92 million; the Victims Recovery complaint alleges damages of approximately \$53 million; the Marsh, Facciola, Rader, and ML Liquidating Trust complaints allege damages in excess of approximately \$200 million. The plaintiffs in these suits also seek pre- and post-judgment interest, punitive damages and attorneys' fees.

The CBIZ Parties filed motions to dismiss in all remaining cases. On March 11, 2013, the court issued a ruling dismissing the securities fraud and aiding and abetting securities fraud claims against the CBIZ Parties and Mayer Hoffman in the Marsh, Victims Recovery and Ashkenazi lawsuits, and also dismissed certain other claims in the Ashkenazi and Victims Recovery cases.

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CBIZ, INC. AND SUBSIDIARIES

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

On April 12, 2013, the court denied the CBIZ Parties' motion to dismiss the remaining claims in the Ashkenazi lawsuit. On May 7, 2013, the court in the ML Liquidating Trust lawsuit issued a ruling dismissing claims for deepening insolvency damages, negligence and breach of contract and holding that any claims related to the 2004 and 2005 Mayer Hoffman audits were barred by the statute of limitations. The court denied the motion as to the negligent misrepresentation claim. On June 14, 2013, the court dismissed the RICO, fraud, and consumer fraud claims in the Marsh lawsuit, and denied the CBIZ Parties' motion as to the negligent misrepresentation and aiding and abetting breaches of fiduciary duty claims.

The CBIZ Parties and Mayer Hoffman, without admitting any liability, have reached settlements in the Victims Recovery, Ashkenazi and Rader lawsuits. In addition, the CBIZ Parties and Mayer Hoffman, without admitting any liability, reached a settlement with a single plaintiff from the Marsh lawsuit. The CBIZ Parties did not pay any monetary amounts as part of these settlements. The Victims Recovery complaint had alleged damages of approximately \$53 million, the Ashkenazi complaint had alleged damages of approximately \$92 million and the Rader complaint alleged damages in excess of \$15 million.

The CBIZ Parties deny all allegations of wrongdoing made against them in these actions and are vigorously defending the remaining proceedings. In particular, the CBIZ Parties are not control persons under the Arizona Securities Act of, or a joint venture with, Mayer Hoffman. The CBIZ Parties do not have, in any respects, the legal right to control Mayer Hoffman's audits or any say in how the audits are conducted. The Company has been advised by Mayer Hoffman that it denies all allegations of wrongdoing made against it and that it intends to continue vigorously defending the matters.

In January 2012, the CBIZ Parties were added as defendants to a lawsuit filed in the Superior Court of California for Orange County (Signature Financial Group, Inc., et al, (Signature) v. Mayer Hoffman McCann, P.C., et al). This lawsuit arises out of a review of the financial statements of Medical Capital Holdings, Inc. (Medical Capital) by Mayer Hoffman. In June 2009, Medical Capital was sued by the SEC and a receiver was appointed to liquidate Medical Capital. The plaintiffs in the Signature lawsuit are financial advisors that sold Medical Capital investments to their clients. Those plaintiffs were sued by their clients for losses related to Medical Capital and now seek to recover damages from the CBIZ Parties and Mayer Hoffman of approximately \$87 million for the losses and expenses they incurred in litigation with their respective clients and for lost profits. The Signature lawsuit seeks to impose auditor-type liabilities upon the CBIZ Parties for attest services they did not conduct. Specific claims asserted and relief requested included fraud, intentional misrepresentation and concealment; negligent misrepresentation; equitable indemnity; declaratory relief and respondeat superior.

The CBIZ Parties deny all allegations of wrongdoing made against them in the Signature lawsuit and are vigorously defending the proceeding. The Company has been advised by Mayer Hoffman that it denies all allegations of wrongdoing made against it and that it intends to continue vigorously defending the matters.

The Company cannot predict the outcome of the above matters or estimate the possible loss or range of loss, if any. Although the proceedings are subject to uncertainties inherent in the litigation process and the ultimate disposition of these proceedings is not presently determinable, management believes that the allegations are without merit and that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition,

results of operations or cash flows of the Company.

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

Table of Contents**CBIZ, INC. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****7. Financial Instruments***Bonds*

In connection with CBIZ's payroll business and the collection of client funds, CBIZ invests a portion of these funds in corporate and municipal bonds. CBIZ held corporate and municipal bonds with par values totaling \$29.0 million and \$28.2 million at September 30, 2013 and December 31, 2012, respectively. All bonds are investment grade and are classified as available-for-sale. These bonds have maturity or callable dates ranging from October 2013 through July 2018, and are included in Funds held for clients on the consolidated balance sheets based on the intent and ability of the Company to sell these investments at any time under favorable conditions. The following table summarizes CBIZ's bond activity for the nine months ended September 30, 2013 and the twelve months ended December 31, 2012 (in thousands):

	Nine Months Ended September 30, 2013	Twelve Months Ended December 31, 2012
Fair value at beginning of period	\$ 29,776	\$ 30,923
Purchases	4,965	5,742
Sales	(345)	(2,000)
Maturities and calls	(3,800)	(4,900)
Decrease in bond premium	(253)	(290)
Fair market value adjustment	(217)	301
Fair value at end of period	\$ 30,126	\$ 29,776

Interest Rate Swaps

CBIZ uses interest rate swaps to manage interest rate risk exposure primarily through converting portions of floating rate debt under the credit facility to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. CBIZ does not enter into derivative instruments for trading or speculative purposes. See the Annual Report on Form 10-K for the year ended December 31, 2012 for further discussion on CBIZ's interest rate swaps.

At September 30, 2013 and December 31, 2012, the interest rate swap was classified as a liability derivative. The following table summarizes CBIZ's outstanding interest rate swap and its classification on the consolidated balance sheets at September 30, 2013 and December 31, 2012 (in thousands).

September 30, 2013

	Notional Amount	Fair Value (2)	Balance Sheet Location
Interest rate swap (1)	\$ 40,000	\$ (539)	Other current and non-current liabilities

December 31, 2012

	Notional Amount	Fair Value (2)	Balance Sheet Location
Interest rate swap (1)	\$ 40,000	\$ (817)	Other non-current liabilities

- (1) Represents interest rate swap with a notional value of \$40.0 million, of which \$15.0 million will expire in June 2014 and the remaining \$25.0 million will expire in June 2015. Under the terms of the interest rate swap, CBIZ pays interest at a fixed rate of 1.41% plus applicable margin as stated in the agreement, and received interest that varied with the three-month LIBOR.
- (2) See additional disclosures regarding fair value measurements in Note 8.

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

The swap was deemed to be effective for the three and nine months ended September 30, 2013 and 2012. The following table summarizes the effects of the interest rate swap on CBIZ's consolidated statements of comprehensive income for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Gain (loss) Recognized in AOCL, net of tax Three Months Ended September 30,		Loss Reclassified from AOCL into Expense Three Months Ended September 30,	
	2013	2012	2013	2012
Interest rate swap	\$ 32	\$ (62)	\$ 115	\$ 97
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest rate swap	\$ 175	\$ (155)	\$ 340	\$ 282

8. Fair Value Measurements

The following table summarizes CBIZ's assets and liabilities at September 30, 2013 and December 31, 2012 that are measured at fair value on a recurring basis subsequent to initial recognition and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

	Level	September 30, 2013	December 31, 2012
Deferred compensation plan assets	1	\$ 47,922	\$ 39,779
Corporate bonds	1	\$ 30,126	\$ 29,776
Interest rate swap	2	\$ (539)	\$ (817)
Contingent purchase price liabilities	3	\$ (30,861)	\$ (30,012)

During the nine months ended September 30, 2013 and 2012, there were no transfers between the valuation hierarchy Levels 1, 2 and 3. The following table summarizes the change in Level 3 fair values of the Company's contingent purchase price liabilities for the nine months ended September 30, 2013 and 2012 (pre-tax basis) (in thousands):

	2013	2012
Beginning balance January 1	\$ (30,012)	\$ (25,325)
Additions from business acquisitions	(4,566)	(6,812)
Payment of contingent purchase price liabilities	4,893	4,924

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Change in fair value of contingencies	(1,090)	402
Change in net present value of contingencies	(86)	(143)
Ending balance September 30	\$ (30,861)	\$ (26,954)

Contingent Purchase Price Liabilities Contingent purchase price liabilities arise from business acquisitions and are classified as Level 3 due to the utilization of a probability weighted discounted cash flow approach to determine the fair value of the contingency. A contingent liability is established for each acquisition that has a contingent purchase price component and normally extends over a three year term. The significant unobservable input used in the fair value measurement of the contingent purchase price liabilities is the future performance of the acquired business. The future performance of

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

the acquired business directly impacts the contingent purchase price that is paid to the seller; thus, performance that exceeds target could result in a higher payout, and a performance under target could result in a lower payout. Changes in the expected amount of potential payouts are recorded as adjustments to the initial contingent purchase price liability, with the same amount being recorded in the consolidated statements of comprehensive income. These liabilities are reviewed quarterly and adjusted if necessary. The risk of a large adjustment in any one reporting period is mitigated by the regular reviews of the performance of the acquired businesses and their respective contingent purchase price liability. The contingent purchase price liabilities are included in Contingent purchase price liability in the current and non-current sections of the consolidated balance sheets, depending on the expected settlement date. See Note 12 for further discussion of contingent purchase price liabilities.

The following table presents financial instruments that are not carried at fair value but which require fair value disclosure as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
2006 Convertible Notes	\$ 750	\$ 750	\$ 750	\$ 750
2010 Convertible Notes	\$ 123,770	\$ 152,422	\$ 121,666	\$ 135,181

Although the trading of CBIZ's 2006 Notes and 2010 Notes is limited, the fair value was determined based upon their most recent quoted market price and as such, is considered to be a Level 1 fair value measurement. The 2006 Notes and the 2010 Notes are carried at face value less any unamortized debt discount. See Note 5 for further discussion of CBIZ's debt instruments.

In addition, the carrying amounts of CBIZ's cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments, and the carrying value of bank debt approximates fair value as the interest rate on the bank debt is variable and approximates current market rates. As a result, the fair value measurement of CBIZ's bank debt is considered to be Level 2.

9. Other Comprehensive Income

The following table is a summary of other comprehensive income (loss) and discloses the tax impact of each component of other comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012

Net unrealized gain (loss) on available-for-sale securities, net of income taxes (1)	\$ 47	\$ 130	\$ (128)	\$ 250
Net unrealized gain (loss) on interest rate swaps, net of income taxes (2)	32	(62)	175	(155)
Foreign currency translation	(14)	(15)	(45)	(45)
Total other comprehensive income	\$ 65	\$ 53	\$ 2	\$ 50

- (1) Net of income tax expense of \$31 and \$87 for the three months ended September 30, 2013 and 2012, respectively, and net of income tax benefit of \$85 and income tax expense of \$166 for the nine months ended September 30, 2013 and 2012, respectively.
- (2) Net of income tax expense of \$19 and income tax benefit of \$37 for the three months ended September 30, 2013 and 2012, respectively, and net of income tax expense of \$103 and income tax benefit of \$91 for the nine months ended September 30, 2013 and 2012, respectively.

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

Accumulated other comprehensive loss, net of tax, was approximately \$0.8 million at September 30, 2013 and December 31, 2012. Accumulated other comprehensive loss consisted of adjustments, net of tax, to unrealized gains and losses on available-for-sale securities and an interest rate swap, and adjustments for foreign currency translation.

10. Employer Share Plans

CBIZ has granted various stock-based awards under its 2002 Amended and Restated CBIZ, Inc. Stock Incentive Plan, which is described in further detail in CBIZ's Annual Report on Form 10-K for the year ended December 31, 2012. The terms and vesting schedules for stock-based awards vary by type and date of grant. Compensation expense for stock-based awards recognized during the three and nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock options	\$ 639	\$ 754	\$ 2,088	\$ 2,224
Restricted stock awards	711	754	2,186	2,153
Total stock-based compensation expense	\$ 1,350	\$ 1,508	\$ 4,274	\$ 4,377

Stock award activity during the nine months ended September 30, 2013 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	7,541	\$ 7.18	1,078	\$ 6.66
Granted	1,497	\$ 6.52	530	\$ 6.44
Exercised or released	(90)	\$ 6.41	(433)	\$ 6.87
Expired or canceled	(1,123)	\$ 7.29	(82)	\$ 6.56
Outstanding at September 30, 2013	7,825	\$ 7.05	1,093	\$ 6.48

Exercisable at September 30, 2013	4,457	\$	7.45
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(1) Represents weighted average market value of the shares; awards are granted at no cost to the recipients.

Table of Contents**CBIZ, INC. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****11. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the three and nine months ended September 30, 2013 and 2012 (in thousands, except per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<u>Numerator:</u>				
Income from continuing operations	\$ 5,081	\$ 3,082	\$ 27,435	\$ 24,029
<u>Denominator:</u>				
Basic				
Weighted average common shares outstanding	48,504	48,895	49,187	49,014
Diluted				
Stock options (1)	227		52	
Restricted stock awards	204	118	230	168
Contingent shares (2)	68	96	68	96
Diluted weighted average common shares outstanding	49,003	49,109	49,537	49,278
Basic earnings per share from continuing operations	\$ 0.10	\$ 0.06	\$ 0.56	\$ 0.49
Diluted earnings per share from continuing operations	\$ 0.10	\$ 0.06	\$ 0.55	\$ 0.49

- (1) A total of 6.5 million and 7.6 million share based awards were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2013, respectively, and a total of 8.3 million and 7.5 million share based awards were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2012, respectively, as they were 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.

12. Acquisitions

During the nine months ended September 30, 2013, CBIZ acquired Associated Insurance Agents (AIA). AIA, located in Minneapolis, Minnesota, is an insurance brokerage agency specializing in property and casualty insurance, personal lines and health and benefit insurance. The operating results of AIA are reported in the Employee Services practice

group. Aggregate consideration for this acquisition consisted of approximately \$3.7 million in cash, \$0.4 million in guaranteed future consideration, and \$4.6 million in contingent consideration.

The aggregate purchase price for this acquisition was preliminarily allocated as follows (in thousands):

Recognized amounts of identifiable assets acquired and liabilities assumed:

Current assets	\$ 346
Identifiable intangible assets	2,774
Accounts payable	(835)
Accrued liabilities	(389)
Deferred tax liability non-current	(1,165)
 Total identifiable net assets	 \$ 731
Goodwill	7,915
 Aggregate purchase price	 \$ 8,646

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

Under the terms of the acquisition agreement, a portion of the purchase price is contingent on future performance of the business acquired. The maximum potential undiscounted amount of all future payments that CBIZ could be required to make under the contingent arrangement is \$5.2 million. CBIZ is required to record the fair value of this obligation at the acquisition date. CBIZ determined, utilizing a probability weighted income approach, that the fair value of the contingent consideration arrangement was \$4.6 million, which was recorded in the consolidated balance sheet at September 30, 2013. The goodwill of \$7.9 million arising from the acquisition in the current year consists largely of expected future earnings and cash flow from the existing management team, as well as the synergies created by the integration of the new business within the CBIZ organization, including cross-selling opportunities expected with the Company's Employee Services group, to help strengthen the Company's existing service offerings and expand the Company's market position. Goodwill recognized is not deductible for income tax purposes.

CBIZ also purchased one client list, which is reported in the Employee Services practice group. Total consideration for this client list was \$0.3 million cash paid at closing and an additional \$0.2 million in cash, which is contingent upon future financial performance of the client list.

In addition, CBIZ paid \$4.1 million in cash and issued approximately 201,000 shares of common stock during the nine months ended September 30, 2013 as contingent earnouts for previous acquisitions. During the nine months ended September 30, 2013, CBIZ also increased the fair value of the contingent purchase price liability related to CBIZ's prior acquisitions by \$1.1 million due to higher than originally projected future results of the acquired businesses. This increase of \$1.1 million is included in Other income (expense), net in the consolidated statements of comprehensive income. Refer to Note 8 for further discussion of contingent purchase price liabilities.

During the nine months ended September 30, 2012, CBIZ acquired substantially all of the assets of four companies: Meridian Insurance Group, LLC (Meridian), Primarily Care, Inc. (PCI), Stoltz and Company, LTD., L.L.P. (Stoltz) and Trinity Risk Advisors, Inc. (Trinity). Meridian, with offices in Boca Raton, Florida and Atlanta, Georgia, is an insurance brokerage firm specializing in multiple insurance products and services including property and casualty, bonding, personal lines and employee benefits. PCI, located in Cranston, Rhode Island, is an employee benefits brokerage firm that offers long-term healthcare cost reduction strategies through a unique system comprised of technology, innovative plan design, educational tools and tangible financial health incentives. Stoltz, with offices in Midland, San Antonio and Amarillo, Texas, is an insurance brokerage firm offering multiple insurance products and services including property and casualty, personal lines and employee benefits with specialization in oil and gas related risk management. Trinity, located in Atlanta, Georgia, is a specialty property and casualty brokerage firm focused primarily on medical malpractice insurance to the healthcare industry and specialized insurance to the transportation industry. The operating results of all four companies are reported in the Employee Services practice group. Aggregate consideration for these acquisitions consisted of approximately \$12.3 million in cash, \$1.7 million in CBIZ common stock, \$1.7 million in guaranteed future consideration, and \$6.8 million in contingent consideration.

During the nine months ended September 30, 2012, CBIZ also purchased two client lists, one of which is reported in the Employee Services practice group and the other is reported in the Financial Services practice group. Aggregate consideration for these client lists consisted of \$0.4 million cash paid at closing and up to an additional \$2.5 million in cash which is contingent upon future performance of the client lists.

In addition, CBIZ paid \$18.8 million in cash and issued approximately 315,000 shares of common stock during the nine months ended September 30, 2012 as contingent earnouts for previous acquisitions, which includes approximately 251,100 shares of common stock that were earned in 2011 and issued in 2012. During the nine months ended September 30, 2012, CBIZ also reduced the fair value of the contingent purchase price liability related to CBIZ's prior acquisitions by \$0.4 million due to lower than originally projected future results of the acquired businesses. This reduction of \$0.4 million is included in Other income (expense), net in the consolidated statements of comprehensive income. Refer to Note 8 for further discussion of contingent purchase price liabilities.

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

The operating results of acquired businesses are included in the accompanying consolidated financial statements since the dates of acquisition. Client lists and non-compete agreements are 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) is allocated to goodwill.

Additions to goodwill, client lists and other intangible assets resulting from acquisitions and contingent consideration earned on prior period acquisitions during the nine months ended September 30, 2013 and 2012, respectively, were as follows (in thousands):

	2013	2012
Goodwill	\$ 8,138	\$ 14,728
Client lists	\$ 3,609	\$ 10,243
Other intangible assets	\$ 171	\$ 373

As a result of CBIZ's acquisition activities during 2012, the following tables provide pro forma financial information as if all the acquisitions were acquired on January 1, 2012. See CBIZ's Annual Report on Form 10-K for the year ended December 31, 2012 for a detailed description of the businesses that were acquired during 2012. The pro forma financial information includes the effect of certain adjustments to normalize such expenses as interest, amortization, benefits and incentive compensation. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the results of operations that would have been obtained had these businesses actually been acquired at January 1, 2012, nor are they intended to be a projection of future results of operations. The Consolidated As Reported column also includes the impact of treating MMP as discontinued operations.

	Three Months Ended September 30, 2012		
	Consolidated As Reported	Pro Forma Adjustments	Pro Forma Consolidated
Revenue	\$ 149,841	\$ 10,694	\$ 160,535
Income from continuing operations after income tax expense	\$ 3,082	\$ 653	\$ 3,735
Earnings per share from continuing operations:			
Basic	\$ 0.06	\$ 0.01	\$ 0.07
Diluted	\$ 0.06	\$ 0.01	\$ 0.07
Weighted average common shares outstanding:			
Basic	48,895	456	49,351
Diluted	49,109	456	49,565

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

	Nine Months Ended September 30, 2012		
	Consolidated		
	As Reported	Pro Forma Adjustments	Pro Forma Consolidated
Revenue	\$ 491,603	\$ 35,487	\$ 527,090
Income from continuing operations after income tax expense	\$ 24,029	\$ 2,734	\$ 26,763
Earnings per share from continuing operations:			
Basic	\$ 0.49	\$ 0.05	\$ 0.54
Diluted	\$ 0.49	\$ 0.05	\$ 0.54
Weighted average common shares outstanding:			
Basic	49,014	564	49,578
Diluted	49,278	565	49,843

13. Discontinued Operations and Divestitures

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 FASB ASC 205 Presentation of Financial Statements Discontinued Operations Other Presentation Matters .

Discontinued Operations

On August 30, 2013, CBIZ sold all of the issued and outstanding capital stock of CBIZ Medical Management Professionals, Inc. and CBIZ Medical Management, Inc. and substantially all of the stock of their subsidiary companies, collectively consisting of all of CBIZ's MMP's ongoing operations and business for a purchase price of \$201.6 million, subject to final working capital adjustments pursuant to a Stock Purchase Agreement among CBIZ operations, Inc. and Zotec Partners, LLC dated July 26, 2013. The results of operations of MMP are included in Income from discontinued operations, net of tax on the consolidated statements of comprehensive income for the three and nine months ended September 30, 2013 and 2012. Additionally, the assets and liabilities of MMP have been consolidated and are included in Assets of discontinued operations and Liabilities of discontinued operations on the consolidated balance sheets as of September 30, 2013 and December 31, 2012. Certain adjustments were determined to be necessary to reflect the operating results and financial position of MMP as discontinued operations. These adjustments include an allocation for interest expense and tax expense, as well as an allocation of deferred tax accounts that specifically relate to MMP. The interest charges were based on the assumption that \$40.0 million of the credit facility debt was related to MMP, thus the interest related to the \$40.0 million was charged to MMP at the respective annual rate of interest for the credit facility. Tax expense was allocated to MMP at its respective individual tax rate.

During the nine months ended September 30, 2012, CBIZ did not discontinue the operations of any of its businesses and did not sell any operations.

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

Revenue and results from operations of discontinued operations for the three and nine months ended September 30, 2013 and 2012 primarily relate to the discontinued operations of MMP and were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 23,549	\$ 33,958	\$ 91,384	\$ 101,630
Income from discontinued operations, before income tax	\$ 1,697	\$ 3,583	\$ 6,837	\$ 9,540
Income tax expense	733	1,390	2,705	3,701
Income from discontinued operations, net of tax	\$ 964	\$ 2,193	\$ 4,132	\$ 5,839

Gains from the sale of discontinued operations are recorded as Gain on disposal of discontinued operations, net of tax, in the accompanying consolidated statements of comprehensive income. In addition, proceeds that are contingent upon a divested operation's actual future performance are recorded as gain on disposal of discontinued operations, net of tax in the period they are earned.

Gain on the disposal of discontinued operations for the three and nine months ended September 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Gain on disposal of discontinued operations, before income tax	\$ 107,506	\$ 52	\$ 107,543	\$ 115
Income tax expense	51,191	20	49,300	43
Gain on disposal of discontinued operations, net of tax	\$ 56,315	\$ 32	\$ 58,243	\$ 72

At September 30, 2013 and December 31, 2012, the assets and liabilities of businesses classified as discontinued operations are reported separately in the accompanying consolidated financial statements and consisted of the following (in thousands):

September 30, December 31,

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	2013	2012
Assets:		
Accounts receivable, net	\$	\$ 17,915
Goodwill and other intangible assets, net		80,222
Property and equipment, net		2,609
Other assets	24	2,545
Assets of discontinued operations	\$ 24	\$ 103,291
Liabilities:		
Accounts payable	\$	\$ 4,088
Accrued personnel		4,230
Accrued expenses current		2,296
Other liabilities	193	3,530
Liabilities of discontinued operations	\$ 193	\$ 14,144

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

Gains and losses from divested operations and assets that do not qualify for treatment as discontinued operations are recorded as "Gain on sale of operations, net" in the consolidated statements of comprehensive income. During the nine months ended September 30, 2012, CBIZ recognized a contingent gain of \$2.5 million from the 2011 sale of its individual wealth management business. Cash proceeds from the sale totaled approximately \$0.9 million.

14. Segment Disclosures

CBIZ's business units have been aggregated into three practice groups: Financial Services, Employee Services 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 in which they operate; 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 each practice group is provided in the following table.

<u>Financial Services</u>	<u>Employee Services</u>	<u>National Practices</u>
Accounting	Employee Benefits	Managed Networking and Hardware Services
Tax	Property & Casualty	Health Care Consulting
Financial Advisory	Retirement Plan Services	Mergers & Acquisitions
Valuation	Payroll Services	
Litigation Support	Life Insurance	
Government Health Care Consulting	Human Capital Services	
Risk Advisory Services	Compensation Consulting	
Real Estate Advisory	Recruiting	
	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 gains or losses attributable to assets held in the Company's deferred compensation plan, stock-based compensation, certain health care costs, consolidation and integration charges, certain professional fees, certain advertising costs and other various expenses.

Accounting policies of the practice groups are the same as those described in Note 1 to the Annual Report on Form 10-K for the year ended December 31, 2012. 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 those costs listed above, 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 nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	Three Months Ended September 30, 2013				
	Financial Services	Employee Services	National Practices	Corporate and Other	Total
Revenue	\$ 110,613	\$ 50,414	\$ 7,812	\$	\$ 168,839
Operating expenses	97,653	42,055	6,617	4,610	150,935
Gross margin	12,960	8,359	1,195	(4,610)	17,904
Corporate general & admin				8,944	8,944
Operating income (loss)	12,960	8,359	1,195	(13,554)	8,960
Other income (expense):					
Interest expense		(6)		(3,809)	(3,815)
Gain on sale of operations, net				6	6
Other income, net	74	63		2,234	2,371
Total other income (expense)	74	57		(1,569)	(1,438)
Income (loss) from continuing operations before income tax expense	\$ 13,034	\$ 8,416	\$ 1,195	\$ (15,123)	\$ 7,522

	Three Months Ended September 30, 2012				
	Financial Services	Employee Services	National Practices	Corporate and Other	Total
Revenue	\$ 95,976	\$ 45,762	\$ 8,103	\$	\$ 149,841
Operating expenses	87,260	38,592	6,844	4,508	137,204
Gross margin	8,716	7,170	1,259	(4,508)	12,637
Corporate general & admin				7,475	7,475
Operating income (loss)	8,716	7,170	1,259	(11,983)	5,162
Other income (expense):					
Interest expense		(6)		(3,570)	(3,576)
Gain on sale of operations, net				21	21

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Other income, net	53	244	1	2,243	2,541
Total other income (expense)	53	238	1	(1,306)	(1,014)
Income (loss) from continuing operations before income tax expense	\$ 8,769	\$ 7,408	\$ 1,260	\$ (13,289)	\$ 4,148

Table of Contents**CBIZ, INC. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****Nine Months Ended September 30, 2013**

	Financial Services	Employee Services	National Practices	Corporate and Other	Total
Revenue	\$ 365,591	\$ 154,681	\$ 22,512	\$	\$ 542,784
Operating expenses	302,397	127,545	20,442	12,176	462,560
Gross margin	63,194	27,136	2,070	(12,176)	80,224
Corporate general & admin				26,577	26,577
Operating income (loss)	63,194	27,136	2,070	(38,753)	53,647
Other income (expense):					
Interest expense		(15)		(12,001)	(12,016)
Gain on sale of operations, net				72	72
Other income, net	450	238	1	3,925	4,614
Total other income (expense)	450	223	1	(8,004)	(7,330)
Income (loss) from continuing operations before income tax expense	\$ 63,644	\$ 27,359	\$ 2,071	\$ (46,757)	\$ 46,317

Nine Months Ended September 30, 2012

	Financial Services	Employee Services	National Practices	Corporate and Other	Total
Revenue	\$ 329,476	\$ 139,430	\$ 22,697	\$	\$ 491,603
Operating expenses	273,623	116,561	20,225	12,374	422,783
Gross margin	55,853	22,869	2,472	(12,374)	68,820
Corporate general & admin				25,594	25,594
Operating income (loss)	55,853	22,869	2,472	(37,968)	43,226
Other income (expense):					
Interest expense		(18)		(11,180)	(11,198)
Gain on sale of operations, net				2,660	2,660
Other income, net	149	437	1	4,435	5,022
Total other income (expense)	149	419	1	(4,085)	(3,516)
	\$ 56,002	\$ 23,288	\$ 2,473	\$ (42,053)	\$ 39,710

Income (loss) from continuing operations before
income tax expense

15. Subsequent Events

Effective October 15, 2013, CBIZ entered into an agreement with its largest client, Edward D. Jones & Co., L.P., to extend the current contract for an additional five years, or until December 31, 2018. CBIZ provides consulting and networking and hardware services under this cost-plus contract arrangement.

Effective November 1, 2013, CBIZ acquired Knight Field Fabry, LLP (Knight). Located in Denver, Colorado, Knight provides accounting, tax, litigation support and valuation services to small and mid-size clients in the Denver, Colorado market. Annualized revenue from this acquisition is expected to be approximately \$1.5 million and will be reported in the Financial Services practice group.

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

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to "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 September 30, 2013 and December 31, 2012, results of operations for the three and nine months ended September 30, 2013 and 2012, and cash flows for the nine months ended September 30, 2013 and 2012, and should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with the Company's Annual Report on Form 10-K for the year ended December 31, 2012. This discussion and analysis contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in "Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q and in "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2012.

Overview

CBIZ provides professional business services, products and solutions that help its clients grow and succeed by better managing their finances and employees. 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 parts of Canada. CBIZ delivers its integrated services through three practice groups: Financial Services, Employee Services and National Practices. See Note 14 to the accompanying consolidated financial statements for a general description of services provided by each practice group.

See the Annual Report on Form 10-K for the year ended December 31, 2012 for further discussion of CBIZ's business and strategies, as well as the external relationships and regulatory factors that currently impact the Company's operations.

Executive Summary

On August 30, 2013, CBIZ, through its subsidiary CBIZ Operations, Inc., an Ohio Corporation, completed the sale of all of the issued and outstanding capital stock of each of CBIZ Medical Management Professionals, Inc., an Ohio corporation, and CBIZ Medical Management, Inc., a North Carolina corporation, and substantially all of the stock of their subsidiary companies, collectively consisting of all of CBIZ's Medical Management Professionals ongoing operations and business ("MMP") to Zotec Partners, LLC, an Indiana limited liability company, for a purchase price of \$201.6 million, subject to final working capital adjustments. After transaction costs and taxes, CBIZ expects proceeds to be approximately \$145 million. The proceeds were used to repurchase shares as discussed below and to pay down outstanding debt on the unsecured credit facility. As a result of the sale, all results of operations for MMP are reflected as discontinued operations in this Form 10-Q.

On August 30, 2013, concurrent with the sale of MMP, CBIZ completed an agreement with Westbury (Bermuda) Ltd., a Bermuda exempted company ("Westbury"), Westbury Trust, a Bermuda trust, and Michael G. DeGroote, the founder of CBIZ, to purchase from Westbury 3.85 million shares of the Company's common stock, which was 50% of Westbury's then current holdings of the Company's common stock at a price of \$6.65 per share, which represented the 60-day moving average share price at July 16, 2013.

Revenue for the three months ended September 30, 2013 increased by 12.7% to \$168.8 million from \$149.8 million for the comparable period in 2012. Revenue from newly acquired operations, net of divestitures, contributed \$13.6 million, or 9.1%, to the growth in revenue, and same-unit revenue contributed \$5.4 million, or 3.6%. Revenue for the

nine months ended September 30, 2013 increased by 10.4% to \$542.8 million from \$491.6 million for the comparable period in 2012. Revenue from newly acquired operations, net of divestitures, contributed \$39.7 million, or 8.1%, and same-unit revenue contributed \$11.5 to the growth in revenue, or 2.3%.

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Earnings per share from continuing operations was \$0.10 per diluted share for the three months ended September 30, 2013 and \$0.06 for the comparable period in 2012. For the nine months ended September 30, 2013 and 2012, earnings per diluted share from continuing operations were \$0.55 and \$0.49, respectively. Included in the nine months ended September 30, 2012 was a gain of \$0.03 per diluted share related to the sale of CBIZ's wealth management business in January 2011. Non-GAAP earnings per diluted share were \$0.25 and \$0.19 for the three months ended September 30, 2013 and 2012, respectively, and \$0.99 and \$0.83 for the nine months ended September 30, 2013 and 2012, respectively. CBIZ believes Non-GAAP earnings per diluted share illustrates the impact of certain non-cash charges and credits to income from continuing operations and is a useful measure for the Company and its analysts. Non-GAAP earnings per diluted share is a measurement prepared on a basis other than generally accepted accounting principles (GAAP). As such, the Company has included this data and has provided a reconciliation to the nearest GAAP measurement, income per diluted share from continuing operations. Reconciliations for the three and nine months ended September 30, 2013 and 2012 are provided in the Results of Operations - Continuing Operations section that follows.

During the nine months ended September 30, 2013, CBIZ acquired Associated Insurance Agents (AIA) of Minneapolis, Minnesota. AIA is an insurance brokerage agency specializing in property and casualty insurance, personal lines, and health and benefit insurance. Annual revenues for AIA are expected to be approximately \$3.8 million and will be reported in the Employee Services practice group.

Effective November 1, 2013, CBIZ acquired Knight Field Fabry, LLP (Knight). Located in Denver, Colorado, Knight provides accounting, tax, litigation support and valuation services to small and mid-size clients in the Denver, Colorado market. Annualized revenue from this acquisition is expected to be approximately \$1.5 million and will be reported in the Financial Services practice group.

Effective October 15, 2013, CBIZ entered into an agreement with its largest client, Edward D. Jones & Co., L.P. (Edward Jones), to extend the current contract for an additional five years, or until December 31, 2018. CBIZ provides consulting and networking and hardware services under this cost-plus contract arrangement.

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 September 1, 2012, revenue for the month of September would be included in same-unit revenue for both years; revenue for the period January 1, 2013 through August 31, 2013 would be reported as revenue from acquired businesses.

Three Months Ended September 30, 2013 and 2012

Revenue The following table summarizes total revenue for the three months ended September 30, 2013 and 2012 (in thousands, except percentages).

	Three Months Ended September 30,					
	2013	% of Total	2012	% of Total	\$ Change	% Change
<u>Same-unit revenue</u>						
Financial Services	\$ 101,510	60.1%	\$ 95,976	64.1%	\$ 5,534	5.8%
Employee Services	45,945	27.2%	45,762	30.5%	183	0.4%

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National Practices	7,812	4.7%	8,103	5.4%	(291)	(3.6)%
Total same-unit revenue	155,267	92.0%	149,841	100.0%	5,426	3.6%
Acquired businesses	13,572	8.0%			13,572	
Total revenue	\$ 168,839	100.0%	\$ 149,841	100.0%	\$ 18,998	12.7%

A detailed discussion of revenue by practice group is included under [Operating Practice Groups](#) .

Gross margin and operating expenses Operating expenses increased by \$13.7 million to \$150.9 million for the three months ended September 30, 2013 from \$137.2 million for the comparable period of 2012, but decreased as a percentage of revenue to 89.4% for the three months ended September 30, 2013 from 91.6% for the comparable period of 2012.

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The primary components of operating expenses for the three months ended September 30, 2013 and 2012 are included in the following table:

	Three Months Ended September 30, 2013		2012		Change in % of Revenue
	% of Operating Expense	% of Revenue	% of Operating Expense	% of Revenue	
Personnel costs	75.9%	67.9%	75.7%	69.3%	(1.4)%
Occupancy costs	6.2%	5.5%	6.7%	6.2%	(0.7)%
Depreciation and amortization	3.1%	2.8%	3.0%	2.8%	
Travel and related costs	3.7%	3.3%	3.5%	3.2%	0.1%
Other (1)	9.6%	8.6%	10.0%	9.1%	(0.5)%
Subtotal	98.5%	88.1%	98.9%	90.6%	(2.5)%
Deferred compensation costs	1.5%	1.3%	1.1%	1.0%	0.3%
Total operating expenses	100.0%	89.4%	100.0%	91.6%	(2.2)%
Gross margin		10.6%		8.4%	2.2%

(1) Other operating expenses include office expenses, equipment costs, professional fees, restructuring charges, bad debt and other expenses, none of which are individually significant as a percentage of total operating expenses. The decrease in operating expenses as a percentage of revenue that was attributable to personnel costs and occupancy costs was primarily due to the leveraging of these costs in relation to the increase in revenues. The decrease in personnel costs were slightly offset by an increase in bonus accruals at certain locations that exceeded profitability targets. The increase in deferred compensation costs as a percentage of revenue was due to an increase in the gains in the value of the assets held in relation to CBIZ's deferred compensation plan for the three months ended September 30, 2013 compared to the same period last year. These adjustments do not impact CBIZ's net income as they are offset by the corresponding decrease or increase to other income, net. Personnel and other operating expenses are discussed in further detail under Operating Practice Groups.

Corporate general and administrative expenses Corporate general and administrative (G&A) expenses increased \$1.4 million to \$8.9 million for the three months ended September 30, 2013 from \$7.5 million for the comparable period in 2012, and increased as a percentage of revenue to 5.3% for the three months ended September 30, 2013 from 5.0% for the comparable period of 2012. The primary components of G&A expenses for the three months ended September 30, 2013 and 2012 are included in the following table:

	Three Months Ended September 30, 2013		2012		Change in % of
	% of G&A	% of Revenue	% of G&A	% of Revenue	

	Expense		Expense		Revenue
Personnel costs	48.2%	2.6%	47.0%	2.3%	0.3%
Professional services	25.7%	1.4%	16.0%	0.8%	0.6%
Computer costs	5.6%	0.3%	6.5%	0.3%	
Travel and related costs	3.6%	0.2%	5.0%	0.2%	
Depreciation and amortization	0.9%		1.1%	0.1%	(0.1)%
Other (1)	13.4%	0.7%	21.6%	1.2%	(0.5)%
Subtotal	97.4%	5.2%	97.2%	4.9%	0.3%
Deferred compensation costs	2.6%	0.1%	2.8%	0.1%	
Total G&A expenses	100.0%	5.3%	100.0%	5.0%	0.3%

- (1) Other G&A expenses include office expenses, equipment costs, occupancy costs, insurance expense and other expenses, none of which are individually significant as a percentage of total G&A expenses.

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The increase in G&A expenses as a percentage of revenue attributable to personnel costs is primarily due to an increase in incentive based compensation accrued during the three months ended September 30, 2013 compared to the same period in 2012. The increase in professional fees was primarily related to an increase in legal expenses during the three months ended September 30, 2013 compared to the same period last year related to the claims against CBIZ as described in Note 6 of the accompanying consolidated financial statements.

Interest expense Interest expense increased by \$0.2 million to \$3.8 million for the three months ended September 30, 2013 from \$3.6 million for the comparable period in 2012. The average debt balance outstanding under the credit facility was \$141.8 million and \$155.3 million for the three months ended September 30, 2013 and 2012, respectively, and the weighted average interest rate was 2.97% and 3.07% for the three months ended September 30, 2013 and 2012, respectively. See Note 5 of the accompanying consolidated financial statements for further discussion of CBIZ's debt arrangements.

Other income, net For the three months ended September 30, 2013 and 2012, other income, net is primarily comprised of gains and losses in the fair value of investments held in a rabbi trust related to the deferred compensation plan. For the three months ended September 30, 2013 and 2012, gains in the fair value of investments related to the deferred compensation plan were \$2.4 million and \$1.7 million, respectively. These adjustments do not impact CBIZ's net income as they are offset by the corresponding decrease or increase to compensation expense, which is recorded as operating and G&A expenses in the consolidated statements of comprehensive income.

Income tax expense CBIZ recorded income tax expense from continuing operations of \$2.4 million and \$1.1 million for the three months ended September 30, 2013 and 2012, respectively. The effective tax rate for the three months ended September 30, 2013 was 32.5%, compared to an effective tax rate of 25.7% for the comparable period in 2012. The increase in the effective tax rate primarily relates to a decreased effect of favorable discrete tax items for the three months ended September 30, 2013 due to higher pre-tax income.

Earnings per share and Non-GAAP earnings per share Earnings per share from continuing operations were \$0.10 and \$0.06 per diluted share for the three months ended September 30, 2013 and 2012, respectively, and Non-GAAP earnings per share were \$0.25 and \$0.19 per diluted share for the three months ended September 30, 2013 and 2012, respectively. The Company believes Non-GAAP earnings and Non-GAAP earnings per diluted share illustrate the impact of certain non-cash charges and credits to income from continuing operations and are a useful performance measure for the Company, its analysts and its stockholders. Management uses these performance measures to evaluate CBIZ's business, including ongoing performance and the allocation of resources. Non-GAAP earnings and Non-GAAP earnings per diluted share are provided in addition to the presentation of GAAP measures and should not be regarded as a replacement or alternative of performance under GAAP. The following is a reconciliation of income from continuing operations to Non-GAAP earnings from operations and diluted earnings per share from continuing operations to Non-GAAP earnings per share for the three months ended September 30, 2013 and 2012.

NON-GAAP EARNINGS AND PER SHARE DATA**Reconciliation of Income from Continuing Operations to Non-GAAP Earnings from Continuing Operations**

	Three Months Ended September 30,			
	2013	Per Share	2012	Per Share
	(In thousands, except per share data)			
Income from continuing operations	\$ 5,081	\$ 0.10	\$ 3,082	\$ 0.06

Selected non-cash charges:

Amortization	3,520	0.07	3,032	0.06
Depreciation	1,250	0.03	1,180	0.03
Non-cash interest on convertible notes	710	0.02	659	0.01
Stock-based compensation	1,350	0.03	1,508	0.03
Adjustment to contingent earnouts	186		(200)	
Non-cash charges	\$ 7,016	\$ 0.15	\$ 6,179	\$ 0.13
Non-GAAP earnings continuing operations	\$ 12,097	\$ 0.25	\$ 9,261	\$ 0.19

Table of Contents**Operating Practice Groups**

CBIZ delivers its integrated services through three practice groups: Financial Services, Employee Services and National Practices. A description of these groups' operating results and factors affecting their businesses is provided below.

Financial Services

	Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$ 101,510	\$ 95,976	\$ 5,534	5.8%
Acquired businesses	9,103		9,103	
Total revenue	\$ 110,613	\$ 95,976	\$ 14,637	15.3%
Operating expenses	97,653	87,259	10,394	11.9%
Gross margin	\$ 12,960	\$ 8,717	\$ 4,243	48.7%
Gross margin percent	11.7%	9.1%		

The growth in same-unit revenue was approximately 70% attributable to an increase in volume in the traditional accounting and tax services and 30% attributable to stronger performance in the units that provide certain national services. The traditional accounting and tax services realized a 5.4% increase in hours billed for the three months ended September 30, 2013 compared to the three months ended September 30, 2012. Growth in the national units was primarily due to increased project work in the federal and state governmental health care compliance industry. Revenue from acquired businesses was the result of the acquisition of PHBV Partners, L.L.P. (PHBV), which occurred on December 31, 2012.

CBIZ provides a range of services to affiliated CPA firms under joint referral and administrative service agreements (ASAs). Fees earned by CBIZ under the ASAs are recorded as revenue in the accompanying consolidated statements of comprehensive income and were approximately \$31.8 million and \$23.8 million for the three months ended September 30, 2013 and 2012, respectively. The increase in ASA fees was primarily the result of the PHBV acquisition.

The largest components of operating expenses for the Financial Services practice group are personnel costs, occupancy costs, and travel and related costs, which represented 89.6% and 89.2% of total operating expenses for the three months ended September 30, 2013 and 2012, respectively. Personnel costs increased \$8.7 million during the three months ended September 30, 2013 compared to the same period in 2012, primarily due to an increase of \$6.1 million associated with the acquisition of PHBV as well as an increase in same-unit personnel costs related to staff compensation increases. Personnel costs represented 70.1% and 71.6% of revenue for the three months ended September 30, 2013 and 2012, respectively. Occupancy costs are relatively fixed in nature and were \$6.5 million and \$6.1 million, or 5.8% and 6.4% of revenue, for the three months ended September 30, 2013 and 2012, respectively. Travel and related costs were \$3.6 million for the three months ended September 30, 2013 compared to \$3.0 million

for the same period in 2012, and were 3.2% and 3.1% of total revenue for the three months ended September 30, 2013 and 2012, respectively. The increase in travel and related costs was due to increased cost incurred for clients (which are billed to clients) and professional staff training efforts, as well as the impact of the PHBV acquisition. In addition to the expenses discussed above, professional service costs were \$1.6 million for the three months ended September 30, 2013 compared to \$1.0 million for the same period in 2012, and were 1.4% and 1.1% of total revenue for the three months ended September 30, 2013 and 2012, respectively. The increase in professional service costs was associated with outside services related to client engagements for our federal and state governmental health care contracts.

Table of Contents*Employee Services*

	Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$ 45,945	\$ 45,762	\$ 183	0.4%
Acquired businesses	4,469		4,469	
Total revenue	\$ 50,414	\$ 45,762	\$ 4,652	10.2%
Operating expenses	42,055	38,593	3,462	9.0%
Gross margin	\$ 8,359	\$ 7,169	\$ 1,190	16.6%
Gross margin percent	16.6%	15.7%		

The increase in same-unit revenue was attributable to several factors. Property and casualty revenues increased 5.3% due to better pricing throughout the industry as well as strong performance within the specialty program business. Payroll business revenues increased 3.4% primarily due to pricing increases for core services. Retirement consulting revenues increased 5.6% due to favorable equity market conditions as advisory fees are typically earned on plan asset balances, which have increased over the prior year. Employee benefits revenues increased 1.0% primarily due to strong client retention and favorable renewal pricing trends. These increases in revenue were partially offset by a decline in the life insurance business of \$1.0 million due to fewer policies placed. Excluding the impact of the life insurance business, same-unit revenue increased 2.8% for the three months ended September 30, 2013 compared to the same period last year.

The growth in revenue from acquisitions was provided by:

Trinity Risk Advisors, Inc., a property and casualty insurance business located in Atlanta, Georgia that was acquired in the third quarter of 2012;

Strategic Employee Benefit Services – The Pruett Group, Inc., an employee benefits business headquartered in Nashville, Tennessee that was acquired in the fourth quarter of 2012;

The employee benefit division of Leavitt Pacific Insurance Brokers, Inc., an employee benefits business in the San Jose, California market that was acquired in the fourth quarter of 2012;

Diversified Industries, Inc. d/b/a Payroll Control Systems, a payroll business in Minneapolis, Minnesota that was acquired in the fourth quarter of 2012; and

Associated Insurance Agents, Inc., a property and casualty and employee benefits business located in Minneapolis, Minnesota, that was acquired in the second quarter of 2013.

The largest components of operating expenses for the Employee Services group are personnel costs, including commissions paid to third party brokers, and occupancy costs, representing 81.9% and 82.2% of total operating expenses for the three months ended September 30, 2013 and 2012, respectively. Personnel costs increased approximately \$2.8 million, primarily as a result of the acquired businesses. Occupancy costs are relatively fixed and were \$2.8 million for the three months ended September 30, 2013 and 2012.

Table of Contents*National Practices*

	Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
	(In thousands, except percentages)			
Same-unit revenue	\$ 7,812	\$ 8,103	\$ (291)	(3.6)%
Operating expenses	6,617	6,844	(227)	(3.3)%
Gross margin	\$ 1,195	\$ 1,259	\$ (64)	(5.1)%
Gross margin percent	15.3%	15.5%		

The decrease in same-unit revenue was primarily due to decreases of \$0.3 million in CBIZ's healthcare consulting and \$0.2 million in the mergers and acquisitions businesses, slightly offset by an increase of \$0.2 million in consulting services provided to CBIZ's largest client, Edward Jones. The decrease in healthcare consulting was due to a lost client in CBIZ's Medicaid eligibility business, and the decrease in mergers and acquisition was due to fewer success fees. Employee wage increases drove the increase in service revenue provided to Edward Jones under the cost-plus contract.

The largest components of operating expenses for the National Practices group are personnel costs, occupancy costs, and travel and related costs representing 95.0% and 92.7% of total operating expenses for the three months ended September 30, 2013 and 2012, respectively. Personnel costs, occupancy costs and travel and related costs were relatively flat for the three months ended September 30, 2013 and 2012. The decrease of \$0.2 million in operating expenses was primarily the result of a decrease in bad debt expense.

Nine Months Ended September 30, 2013 and 2012

Revenue The following table summarizes total revenue for the nine months ended September 30, 2013 and 2012 (in thousands, except percentages).

	Nine Months Ended September 30,					
	2013	% of Total	2012	% of Total	\$ Change	% Change
<u>Same-unit revenue</u>						
Financial Services	\$ 340,889	62.8%	\$ 329,476	67.0%	\$ 11,413	3.5%
Employee Services	139,688	25.7%	139,430	28.4%	258	0.2%
National Practices	22,512	4.2%	22,697	4.6%	(185)	(0.8)%
Total same-unit revenue	503,089	92.7%	491,603	100.0%	11,486	2.3%
Acquired businesses	39,695	7.3%			39,695	
Total revenue	\$ 542,784	100.0%	\$ 491,603	100.0%	\$ 51,181	10.4%

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

Gross margin and operating expenses Operating expenses increased to \$462.6 million for the nine months ended September 30, 2013 from \$422.8 million for the comparable period of 2012, but decreased as a percentage of revenue to 85.2% for the nine months ended September 30, 2013 from 86.0% for the comparable period of 2012.

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The primary components of operating expenses for the nine months ended September 30, 2013 and 2012 are included in the following table:

	2013		2012		Change in % of Revenue
	% of Operating Expense	% of Revenue	% of Operating Expense	% of Revenue	
Personnel costs	76.4%	65.1%	77.0%	66.2%	(1.1)%
Occupancy costs	6.1%	5.2%	6.4%	5.5%	(0.3)%
Depreciation and amortization	3.0%	2.6%	2.9%	2.5%	0.1%
Travel and related costs	3.9%	3.3%	3.5%	3.0%	0.3%
Other (1)	9.6%	8.2%	9.4%	8.1%	0.1%
Subtotal	99.0%	84.4%	99.2%	85.3%	(0.9)%
Deferred compensation costs	1.0%	0.8%	0.8%	0.7%	0.1%
Total operating expenses	100.0%	85.2%	100.0%	86.0%	(0.8)%
Gross margin		14.8%		14.0%	0.8%

(1) Other operating expenses include office expenses, equipment costs, professional fees, restructuring charges, bad debt and other expenses, none of which are individually significant as a percentage of total operating expenses. The decrease in operating expenses as a percentage of revenue that was attributable to personnel costs and occupancy costs was primarily due to the leveraging of these costs in relation to the increase in revenues as well as a decrease in accrued incentive compensation at certain locations that did not meet profitability targets. The increase in travel and related costs as a percentage of revenue was primarily due to increased client development efforts. Personnel and other operating expenses are discussed in further detail under *Operating Practice Groups*.

Corporate general and administrative expenses Corporate G&A expenses increased by \$1.0 million to \$26.6 million for the nine months ended September 30, 2013 from \$25.6 million for the comparable period of 2012, but decreased as a percentage of revenue to 4.9% for the nine months ended September 30, 2013 from 5.2% for the comparable period of 2012. The primary components of G&A expenses for the nine months ended September 30, 2013 and 2012 are included in the following table:

	2013		2012		Change in % of Revenue
	% of G&A Expense	% of Revenue	% of G&A Expense	% of Revenue	
Personnel costs	55.4%	2.7%	52.1%	2.7%	
Professional services	17.9%	0.9%	18.5%	1.0%	(0.1)%

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Computer costs	5.8%	0.3%	5.5%	0.3%	
Travel and related costs	3.3%	0.2%	3.8%	0.2%	
Depreciation and amortization	0.9%		1.0%	0.1%	(0.1)%
Other (1)	14.9%	0.7%	17.2%	0.8%	(0.1)%
Subtotal	98.2%	4.8%	98.1%	5.1%	(0.3)%
Deferred compensation costs	1.8%	0.1%	1.9%	0.1%	
Total G&A expenses	100.0%	4.9%	100.0%	5.2%	(0.3)%

(1) Other G&A expenses include office expenses, equipment costs, occupancy costs, insurance expense and other expenses, none of which are individually significant as a percentage of total G&A expenses.

Interest expense Interest expense increased by \$0.8 million to \$12.0 million for the nine months ended September 30, 2013 from \$11.2 million for the comparable period in 2012. The increase in interest expense was primarily due to an increase in the average debt balance outstanding under the credit facility to \$190.7 million for the nine months ended September 30, 2013 compared to \$162.9 million for the nine months ended September 30, 2012, partially offset by a decrease in the weighted average interest rate to 2.96% for the nine months ended September 30, 2013 compared to 3.18% for the same period in 2012.

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Other income, net Other income, net is primarily comprised of gains and losses in the fair value of investments held in a rabbi trust related to the deferred compensation plan and adjustments to contingent liabilities related to previous acquisitions. Gains in the fair value of investments related to the deferred compensation were \$5.0 million and \$3.8 million for the nine months ended September 30, 2013 and 2012, respectively. These adjustments do not impact CBIZ's net income as they are offset by the corresponding increase to compensation expense, which is recorded as operating and G&A expenses in the consolidated statements of comprehensive income. In addition, adjustments to contingent liabilities resulted in expense of \$1.1 million and income of \$0.3 million for the nine months ended September 30, 2013 and 2012, respectively.

Income tax expense CBIZ recorded income tax expense from continuing operations of \$18.9 million and \$15.7 million for the nine months ended September 30, 2013 and 2012, respectively. The effective tax rate for the nine months ended September 30, 2013 was 40.8%, compared to an effective tax rate of 39.5% for the same period in 2012. The increase in the effective tax rate primarily relates to the release of a valuation allowance on a state income tax carryforward during the nine months ended September 30, 2012.

Earnings per share and Non-GAAP earnings per share Earnings per share from continuing operations were \$0.55 and \$0.49 per diluted share for the nine months ended September 30, 2013 and 2012, respectively, and Non-GAAP earnings per share were \$0.99 and \$0.83 per diluted share for the nine months ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2012, the after tax gain of \$0.03 per diluted share related to the gain on sale of the Company's wealth management business that was sold in 2011 has been excluded from Non-GAAP earnings. The Company believes Non-GAAP earnings and Non-GAAP earnings per diluted share illustrate the impact of certain non-cash charges and credits to income from continuing operations and are a useful performance measure for the Company, its analysts and its stockholders. Management uses these performance measures to evaluate CBIZ's business, including ongoing performance and the allocation of resources. Non-GAAP earnings and Non-GAAP earnings per diluted share are provided in addition to the presentation of GAAP measures and should not be regarded as a replacement or alternative of performance under GAAP. The following is a reconciliation of income from continuing operations to Non-GAAP earnings from operations and diluted earnings per share from continuing operations to Non-GAAP earnings per diluted share for the nine months ended September 30, 2013 and 2012.

NON-GAAP EARNINGS AND PER SHARE DATA**Reconciliation of Income from Continuing Operations to Non-GAAP Earnings from Continuing Operations**

	Nine Months Ended September 30,			
	2013	Per Share	2012	Per Share
	(In thousands, except per share data)			
Income from continuing operations	\$ 27,435	\$ 0.55	\$ 24,029	\$ 0.49
Adjustment for gain on sale of operations			(1,547)	(0.03)
Selected non-cash charges:				
Amortization	10,562	0.21	8,883	0.18
Depreciation	3,582	0.07	3,590	0.07
Non-cash interest on convertible note	2,104	0.04	1,954	0.04
Stock-based compensation	4,274	0.09	4,377	0.09
Adjustments to contingent earnouts	1,090	0.03	(303)	(0.01)
Non-cash charges	\$ 21,612	\$ 0.44	\$ 18,501	\$ 0.37

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Non-GAAP earnings	continuing operations	\$ 49,047	\$ 0.99	\$ 40,983	\$ 0.83
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Table of Contents**Operating Practice Groups**

CBIZ delivers its integrated services through three practice groups: Financial Services, Employee Services and National Practices. A brief description of these groups' operating results and factors affecting their businesses is provided below.

Financial Services

	Nine Months Ended September 30,			
	2013	2012	\$ Change	% Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$ 340,889	\$ 329,476	\$ 11,413	3.5%
Acquired businesses	24,702		24,702	
Total revenue	\$ 365,591	\$ 329,476	\$ 36,115	11.0%
Operating expenses	302,397	273,623	28,774	10.5%
Gross margin	\$ 63,194	\$ 55,853	\$ 7,341	13.1%
Gross margin percent	17.3%	17.0%		

The growth in same-unit revenue was approximately 60% attributable to stronger performance in the units that provide certain national services and 40% attributable to the traditional accounting and tax services. Growth in the national units was primarily due to increased project work in the federal and state governmental health care compliance industry as well as in risk and advisory and valuation services. The growth in the traditional accounting and tax services was due to a 1.0% increase in billable hours and a 1.1% increase in revenue per hour for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012. Revenue from acquired businesses was the result of the acquisition of PHBV, which occurred on December 31, 2012.

CBIZ provides a range of services to affiliated CPA firms under joint referral and ASAs. Fees earned by CBIZ under the ASAs are recorded as revenue in the accompanying consolidated statements of comprehensive income and were approximately \$113.0 million and \$93.5 million for the nine months ended September 30, 2013 and 2012, respectively. The increase in ASA fees was the result of the PHBV acquisition.

The largest components of operating expenses for the Financial Services practice group are personnel costs, occupancy costs, and travel and related costs which represented 89.3% of total operating expenses for the nine months ended September 30, 2013 and 2012. Personnel costs increased \$21.7 million during the nine months ended September 30, 2013 compared to the same period in 2012, and represented 65.5% and 66.1% of revenue for the nine months ended September 30, 2013 and 2012, respectively. The increase was largely attributable to the acquisition of PHBV, comprising \$17.5 million of the variance, as well as a same-unit increase of \$4.2 million due to increased headcount. Occupancy costs are relatively fixed in nature and were \$19.2 million and \$18.2 million, or 5.3% and 5.5% of revenue, for the nine months ended September 30, 2013 and 2012, respectively. The increase in occupancy costs is related primarily to the PHBV acquisition. Travel and related costs were \$11.2 million and \$8.5 million, or 3.1% and 2.6% of total revenue, for the nine months ended September 30, 2013 and 2012, respectively. The increase in travel

and related costs was due to a higher volume of engagement-related costs (which are billed to clients), professional staff training efforts, and internal and external meetings, as well as from the impact of the PHBV acquisition. In addition to the expenses discussed above, professional service costs were \$5.2 million and \$2.5 million, or 1.4% and 0.8% of total revenue, for the nine months ended September 30, 2013 and 2012, respectively. The increase in professional service costs was associated with outside services related to client engagements for our federal and state governmental health care contracts.

Table of Contents*Employee Services*

	Nine Months Ended September 30,			
	2013	2012	\$ Change	% Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$ 139,688	\$ 139,430	\$ 258	0.2%
Acquired businesses	14,993		14,993	
Total revenue	\$ 154,681	\$ 139,430	\$ 15,251	10.9%
Operating expenses	127,545	116,561	10,984	9.4%
Gross margin	\$ 27,136	\$ 22,869	\$ 4,267	18.7%
Gross margin percent	17.5%	16.4%		

The increase in same-unit revenue was attributable to several factors. Property and casualty revenues increased 4.6% due to better pricing throughout the industry as well as strong performance within the specialty program businesses. Payroll business revenues increased 4.5% primarily due to pricing increases for core services. Retirement consulting revenues increased 4.6% due to favorable equity market conditions as advisory fees are typically earned on plan asset balances, which have grown over the prior year. These increases were partially offset by a decline in the life insurance business of \$2.5 million due to several large policies that were placed in 2012 that did not reoccur in 2013. Excluding the impact of the life insurance business, same-unit revenue increased 2.0% for the nine months ended September 30, 2013 compared to the same period last year.

The growth in revenue from acquisitions was provided by:

Strategic Employee Benefit Services, an employee benefits client list in the Chicago, Illinois market that was acquired in the first quarter of 2012;

Primarily Care, Inc., an employee benefits business located in Cranston, Rhode Island that was acquired in the second quarter of 2012;

Stoltz and Company, LTD., L.L.P., a property and casualty insurance and employee benefits business headquartered in Midland, Texas that was acquired in the third quarter of 2012;

Trinity Risk Advisors, Inc., a property and casualty insurance business located in Atlanta, Georgia that was acquired in the third quarter of 2012;

Strategic Employee Benefit Services The Pruett Group, Inc., an employee benefits business headquartered in Nashville, Tennessee that was acquired in the fourth quarter of 2012;

The employee benefit division of Leavitt Pacific Insurance Brokers, Inc., an employee benefits business in the San Jose, California market that was acquired in the fourth quarter of 2012;

Diversified Industries, Inc. d/b/a Payroll Control Systems, a payroll business in Minneapolis, Minnesota that was acquired in the fourth quarter of 2012; and

Associated Insurance Agents, a property and casualty and employee benefits business located in Minneapolis, Minnesota, that was acquired in the second quarter of 2013.

The largest components of operating expenses for the Employee Services group are personnel costs, including commissions paid to third party brokers, and occupancy costs, representing 82.2% and 82.9% of total operating expenses for the nine months ended September 30, 2013 and 2012, respectively. Excluding costs related to the acquired businesses of \$8.5 million, personnel costs decreased approximately \$0.7 million, primarily due to lower external sales commissions related to the decline in life insurance revenues discussed above, as well as certain severance costs incurred in the first quarter of 2012 that did not reoccur. Occupancy costs are relatively fixed and were \$7.7 million for the nine months ended September 30, 2013, excluding the costs of the acquired businesses of \$0.7 million in 2013.

Table of Contents*National Practices*

	Nine Months Ended September 30,			
	2013	2012	\$ Change	% Change
	(In thousands, except percentages)			
Same-unit revenue	\$ 22,512	\$ 22,697	\$ (185)	(0.8)%
Operating expenses	20,442	20,225	217	1.1%
Gross margin	\$ 2,070	\$ 2,472	\$ (402)	(16.3)%
Gross margin percent	9.2%	10.9%		

The decrease in same-unit revenue was primarily attributable to a decrease in the healthcare consulting business of \$0.6 million and to a lesser extent, a decrease in the mergers and acquisition business of \$0.2 million. The decrease in healthcare consulting was due to a lost client in CBIZ's Medicaid eligibility business, and the decrease in mergers and acquisition was due to fewer success fees. These decreases were predominantly offset by an increase of \$0.6 million in services provided to CBIZ's largest client, Edward Jones, under its cost-plus contract. The increase in revenue was primarily a result of wage increases issued during the past year.

The largest components of operating expenses for the National Practices group are personnel costs, occupancy costs, and travel and related costs representing 94.3% and 93.9% of total operating expenses for the nine months ended September 30, 2013 and 2012, respectively. Personnel costs for the nine months ended September 30, 2013 increased by \$0.3 million compared to the same period a year ago, primarily due to the wage increases at Edward Jones as mentioned above. Occupancy costs and travel and related costs were flat for the nine months ended September 30, 2013 and 2012.

Financial Condition

Total assets were \$858.8 million at September 30, 2013, a decrease of \$111.4 million versus December 31, 2012. Current assets of \$314.2 million exceeded current liabilities of \$250.7 million by \$63.5 million at September 30, 2013.

Cash and cash equivalents increased by \$2.7 million to \$3.6 million at September 30, 2013 from December 31, 2012. Restricted cash was \$25.0 million at September 30, 2013, an increase of \$5.3 million from December 31, 2012. Restricted cash represents those funds held in connection with CBIZ's Financial Industry Regulatory Authority regulated business and funds held in connection with the pass through of insurance premiums to various carriers. Cash and restricted cash fluctuate during the year based on the timing of cash receipts and related payments.

Accounts receivable, net, were \$161.7 million at September 30, 2013, an increase of \$24.9 million from December 31, 2012, and days sales outstanding (DSO) from continuing operations was 84 days, 77 days and 84 days at September 30, 2013, December 31, 2012 and September 30, 2012, respectively. DSO represents accounts receivable, net and unbilled revenue (net of realization adjustments) at the end of the period, divided by trailing twelve month daily revenue. CBIZ provides DSO data because such data is commonly used as a performance measure by analysts and investors and as a measure of the Company's ability to collect on receivables in a timely manner. The increase in accounts receivable, net was primarily due to the overall increase in revenues in 2013 compared to 2012 as well as the seasonal nature of CBIZ's businesses.

Other current assets were \$12.2 million and \$10.9 million at September 30, 2013 and December 31, 2012, respectively. Other current assets are primarily comprised of prepaid assets. Balances may fluctuate during the year based upon the timing of cash payments and amortization of prepaid expenses.

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Funds held for clients (current and non-current) and the corresponding client fund obligations relate to CBIZ's payroll services business. The balances in these accounts fluctuate with the timing of cash receipts and the related cash payments. Client fund obligations can differ from funds held for clients due to changes in the market values of the underlying investments. The nature of these accounts is further described in Note 1 to the consolidated financial statements included in CBIZ's Annual Report on Form 10-K for the year ended December 31, 2012.

Property and equipment, net, increased by \$0.7 million to \$18.5 million at September 30, 2012 from \$17.8 million at December 31, 2012. The increase is primarily the result of capital expenditures of \$4.3 million, partially offset by depreciation and amortization expense of \$3.6 million. CBIZ's property and equipment is primarily comprised of software, hardware, furniture and leasehold improvements.

Goodwill and other intangible assets, net, increased by \$1.3 million at September 30, 2013 from December 31, 2012. This increase is comprised of additions to goodwill of \$8.1 million and additions to intangible assets of \$3.8 million resulting from acquisitions and contingent purchase price adjustments, offset by \$10.6 million of amortization expense.

Assets of the deferred compensation plan represent participant deferral accounts and are directly offset by deferred compensation plan obligations. Assets of the deferred compensation plan were \$47.9 million and \$39.8 million at September 30, 2013 and December 31, 2012, respectively. The increase in assets of the deferred compensation plan of \$8.1 million consisted of net participant contributions of \$3.1 million and an increase in the fair value of the investments of \$5.0 million for the nine months ended September 30, 2013. The plan is described in further detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

The accounts payable balances of \$33.7 million and \$35.4 million at September 30, 2013 and December 31, 2012, respectively, reflect amounts due to suppliers and vendors; balances fluctuate during the year based on the timing of cash payments. Accrued personnel costs were \$36.3 million and \$34.9 million at September 30, 2013 and December 31, 2012, respectively, and represent amounts due for payroll, payroll taxes, employee benefits and incentive compensation. Balances fluctuate during the year based on the timing of payments and adjustments to the estimate of incentive compensation costs.

Notes payable current decreased by \$0.4 million to \$5.1 million at September 30, 2013 from \$5.5 million at December 31, 2012. Notes payable balances and activity are primarily guaranteed purchase price payments and contingent proceeds earned by previously acquired businesses. During the nine months ended September 30, 2013, payments on guaranteed purchase price and notes attributable to contingent proceeds relating to previously acquired businesses were approximately \$2.0 million. Offsetting these payments were a reclassification of long term notes to current notes payable of \$1.2 million and additions of approximately \$0.4 million related to guaranteed purchase price payments to be made on current year acquisitions.

Contingent purchase price liabilities (current and non-current) relate to performance-based contingent purchase price liabilities that result from business acquisitions. Contingent purchase price liabilities (current and non-current) increased by \$0.9 million to \$30.9 million at September 30, 2013 from \$30.0 million at December 31, 2012 due to an increase of \$4.6 million from current year business acquisitions, adjustments of \$1.1 million to the fair value of the contingent purchase price liabilities and \$0.1 million in net present value adjustments to the liabilities. These increases were partially offset by payments of \$4.9 million.

Other liabilities (current and non-current) increased by \$3.5 million to \$28.0 million at September 30, 2013 from \$24.5 million at December 31, 2012. The increase was primarily attributable to an increase of \$1.9 million related to the self-funded health insurance plan due to seasonality of claims experience, an increase of \$1.4 million in accrued

interest payable on the Company's convertible notes due to timing of payments, an increase of \$1.9 million related to the accrued lease liability resulting from business acquisitions and new lease agreements at certain locations and additions to the legal and consulting accruals of \$0.9 million for legal proceedings as described in Note 6 to the accompanying consolidated financial statements. These increases were partially offset by a reduction in unearned revenues of \$1.2 million, reclassification to current notes payable of \$1.2 million for guaranteed purchase price payments related to business acquisitions, and payments made that reduced the restructuring accrual of \$0.4 million.

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Income taxes payable current increased to \$38.7 million at September 30, 2013 from \$1.4 million at December 31, 2012, primarily due to the tax liability related to the gain on sale of CBIZ's MMP business that occurred on August 30, 2013. Income taxes payable current at September 30, 2013 and December 31, 2012 primarily represents the provision for current income taxes less estimated tax payments. Income taxes payable non-current at September 30, 2013 and December 31, 2012 was \$6.1 million and \$4.0 million, respectively, and represents the accrual for uncertain tax positions.

CBIZ's 2006 Notes and 2010 Notes are carried at face value less unamortized discount. The \$2.1 million increase in the carrying value of the convertible notes at September 30, 2013 compared to December 31, 2012 represents amortization of the discount, which is recognized as non-cash interest expense in the consolidated statements of comprehensive income. The convertible notes are further disclosed in Note 5 of the accompanying consolidated financial statements.

Bank debt for amounts due on CBIZ's credit facility decreased \$168.9 million to \$40.0 million at September 30, 2013 from \$208.9 million at December 31, 2012. This decrease resulted from the application of a portion of the proceeds received from the sale of MMP at August 30, 2013.

Stockholders' equity increased by \$68.6 million to \$363.8 million at September 30, 2013 from \$295.2 million at December 31, 2012. The increase was primarily attributable to net income of \$89.8 million, CBIZ's stock award programs, which contributed \$3.8 million, and the issuance of \$1.4 million in common shares related to business acquisitions and contingent payments related to prior acquisitions. These increases were partially offset by \$26.5 million related to the repurchase of 3.85 million shares of CBIZ common stock from Westbury in conjunction with the sale of MMP.

Liquidity and Capital Resources

CBIZ's principal source of net operating cash is derived from the collection of fees and commissions for professional services and products rendered to its clients. CBIZ supplements net operating cash with a \$275 million unsecured credit facility and \$130 million in 2010 Notes.

CBIZ maintains a \$275 million unsecured credit facility with Bank of America as agent bank for a group of seven participating banks. At September 30, 2013, CBIZ had \$40.0 million outstanding under its credit facility and had letters of credit and performance guarantees totaling \$4.4 million. Available funds under the credit facility, based on the terms of the commitment, were approximately \$138.8 million at September 30, 2013. Management believes that cash generated from operations, combined with the available funds from the credit facility, provides CBIZ the financial resources needed to meet business requirements for the foreseeable future, including capital expenditures and working capital requirements.

The credit facility also allows for the allocation of funds for strategic initiatives, including acquisitions and the repurchase of CBIZ common stock. Under the credit facility, CBIZ is required to meet certain financial covenants with respect to (i) minimum net worth; (ii) maximum total and senior leverage ratios; and (iii) a minimum fixed charge coverage ratio. CBIZ believes it is in compliance with its covenants as of September 30, 2013. CBIZ's ability to service its debt and to fund strategic initiatives will depend upon its ability to generate cash in the future.

The proceeds from the sale of MMP were used to fund the repurchase of approximately 3.85 million shares from Westbury as well as pay down the outstanding debt on the unsecured credit facility.

In addition to the debt instruments previously mentioned, CBIZ may obtain, at a future date, additional funding by offering securities or debt through public or private markets.

Table of Contents**Sources and Uses of Cash**

The following table summarizes CBIZ's cash flows from operating, investing and financing activities for the nine months ended September 30, 2013 and 2012 (in thousands):

	2013	2012
Total cash provided by (used in):		
Operating activities	\$ 10,595	\$ 37,650
Investing activities	241,999	(4,508)
Financing activities	(249,940)	(34,301)
Increase (decrease) in cash and cash equivalents	\$ 2,654	\$ (1,159)

Operating Activities

Cash flows from operating activities represent net income adjusted for certain non-cash items and changes in assets and liabilities. CBIZ typically experiences a net use of cash from operations during the first quarter of its fiscal year, as accounts receivable balances grow in response to the seasonal increase in first quarter revenue generated by the Financial Services practice group (primarily for accounting and tax services). This net use of cash is followed by strong operating cash flow during the second and third quarters, as a significant amount of revenue generated by the Financial Services practice group during the first four months of the year are billed and collected in subsequent quarters.

For the nine months ended September 30, 2013, net cash provided by operating activities was \$10.6 million and primarily consisted of net income of \$89.8 million and non-cash adjustments to net income of \$26.6 million. Partially offsetting these sources of cash were gains on the sale of operations and discontinued operations transactions of \$62.4 million and changes in working capital items of \$48.6 million. The gain on sales of discontinued operations includes a gain on the sale of MMP of \$58.2 million that was recorded on August 30, 2013. The non-cash adjustments to net income primarily consist of depreciation and amortization expense, amortization of the discount on convertible notes and deferred financing fees, stock based compensation expense, deferred income tax expense, and adjustments to contingent purchase price liabilities. Net changes in working capital were primarily due to an increase in accounts receivable due to an increase in revenues and days sales outstanding and an increase in income taxes payable resulting from the MMP transaction. Cash provided by discontinued operations was \$5.2 million.

For the nine months ended September 30, 2012, net cash provided by operating activities was \$37.7 million and primarily consisted of net income of \$29.9 million and non-cash adjustments to net income of \$22.2 million. Partially offsetting these sources of cash were changes in working capital items of \$16.5 million and a net gain on the sale of operations and discontinued operations transactions of \$8.6 million. The non-cash adjustments to net income primarily consist of depreciation and amortization expense, amortization of the discount on convertible notes and deferred financing fees, stock based compensation expense, deferred income tax expense, and adjustments to contingent purchase price liabilities. Net changes in working capital were primarily due to an increase in accounts receivable due to an increase in revenue and DSO at September 30, 2012 compared to December 31, 2011, partially offset by an increase in accounts payable due to the Company's efforts to manage payables, and income taxes payable resulting from the timing of payments. Cash provided by discontinued operations was \$10.6 million.

Investing Activities

CBIZ's investing activities typically consist of: payments for business acquisitions and client lists, contingent payments associated with business acquired prior to 2009, purchases of capital equipment, net activity related to funds held for clients, and proceeds received from sales of divestitures and discontinued operations. Capital expenditures consisted of investments in technology, leasehold improvements and purchases of furniture and equipment.

During the nine months ended September 30, 2013, investing sources of cash primarily consisted of net activities related to proceeds from the sale of MMP of \$200.9 million and funds held for clients of \$50.6 million. These sources of cash were partially offset by cash used related to business acquisitions of \$5.0 million and capital expenditures of \$4.3 million. Cash used by discontinued operations was \$0.3 million.

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Cash used by investing activities during the nine months ended September 30, 2012 primarily consisted of \$26.7 million of net cash used for acquisitions and contingent payments on prior acquisitions and capital expenditures of \$1.6 million. These uses were offset by net activity related to funds held for clients of \$23.9 million and proceeds from the sale of divested and discontinued operations of \$1.4 million. Cash used by discontinued operations was \$1.5 million.

Financing Activities

CBIZ's financing cash flows typically consist of net borrowing and payment activity from the credit facility, the issuance and repayment of debt instruments, repurchases of CBIZ common stock, net change in client fund obligations, and proceeds from the exercise of stock options.

Net cash used in financing activities during the nine months ended September 30, 2013 was primarily due to net payments on the credit facility of \$168.9 million resulting from the application of proceeds from the sale of MMP, net activities related to client fund obligations of \$50.6 million, \$26.5 million used to repurchase shares of CBIZ common stock, and payments for contingent and non-contingent consideration included as part of the initial measurement of prior business acquisitions of \$4.6 million. These uses of cash were offset from proceeds from the exercise of stock options totaling \$0.6 million.

Net cash used in financing activities during the nine months ended September 30, 2012 primarily consisted of \$23.8 million in net activity related to client fund obligations, \$5.7 million used to repurchase shares of CBIZ common stock, \$5.2 million in payments for contingent and non-contingent consideration included as part of the initial measurement of prior business acquisitions, and \$0.6 million in cash used to pay for debt issuance costs related to the amendment of the credit facility. These uses of cash were partially offset by \$1.0 million in net borrowings from the credit facility.

Obligations and Commitments

CBIZ's aggregate amount of future obligations at September, 2013 for the next five years and thereafter is set forth below (in thousands):

	Total	2013 (1)	2014	2015	2016	2017	Thereafter
Convertible notes (2)	\$ 130,750	\$	\$	\$ 130,000	\$ 750	\$	\$
Interest on convertible notes	15,917	3,181	6,362	6,362	12		
Credit facility (3)	40,000			40,000			
Income taxes payable (4)	38,702	38,702					
Notes payable	5,127		5,127				
Contingent purchase price liabilities (5)	30,861	9,035	9,768	8,935	2,994	129	
Restructuring lease obligations (6)	4,824	291	1,201	1,239	1,135	451	507
Non-cancelable operating lease obligations (6)	150,103	7,984	29,355	26,407	24,602	19,984	41,771
Letters of credit in lieu of cash security deposits	2,516		295		835		1,386
Performance guarantees for non-consolidated affiliates	1,934		1,934				

License bonds and other letters of credit	2,382	365	1,973	26	18		
Total	\$ 423,116	\$ 59,558	\$ 56,015	\$ 212,969	\$ 30,346	\$ 20,564	\$ 43,664

- (1) Represents contractual obligations from October 1, 2013 to December 31, 2013.
- (2) Represents \$130 million par value of 2010 Notes which mature on October 1, 2015, and \$750 thousand par value of 2006 Notes which mature on June 1, 2026. The 2006 Notes may be putable by the holders of the convertible notes on June 1, 2016 and can be redeemed by the Company at anytime.
- (3) Interest on the credit facility is not included as the amount is not determinable due to the revolving nature of the credit facility and the variability of the related interest rate.
- (4) Does not reflect \$5.7 million of unrecognized tax benefits, which the Company has accrued for uncertain tax positions, as CBIZ is unable to determine a reasonably reliable estimate of the timing of the future payments.
- (5) Represents contingent earnout liability that is expected to be paid over the next six years to businesses CBIZ acquired on or after January 1, 2009.
- (6) Excludes cash expected to be received under subleases.

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Off-Balance Sheet Arrangements

CBIZ maintains administrative service agreements with independent CPA firms (as described more fully in the Annual Report on Form 10-K for the year ended December 31, 2012), which qualify as variable interest entities. The accompanying consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact is not material to the financial condition, results of operations, or cash flows of CBIZ.

CBIZ provides guarantees of performance obligations for a CPA firm with which CBIZ maintains an administrative service agreement. Potential obligations under the guarantees totaled \$1.9 million at September 30, 2013 and December 31, 2012. CBIZ has recognized a liability for the fair value of the obligations undertaken in issuing these guarantees. The liability is recorded as other current liabilities in the accompanying consolidated balance sheets. CBIZ does not expect it will be required to make payments under these guarantees.

CBIZ provides letters of credit to landlords (lessors) of its leased premises in lieu of cash security deposits, which totaled \$2.5 million at September 30, 2013 and December 31, 2012. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding at September 30, 2013 and December 31, 2012 totaled \$2.4 million and \$2.7 million, respectively.

CBIZ has various agreements under which it may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which the Company customarily agrees 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 is generally conditioned upon the other party making a claim. Such claims are typically subject to challenge by CBIZ and to dispute resolution procedures specified in the particular contract. Further, CBIZ's obligations under these agreements may be limited in terms of time and/or amount and, in some instances, CBIZ may have recourse against third parties for certain payments made by CBIZ. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of CBIZ's obligations and the unique facts of each particular agreement. Historically, CBIZ has not made any payments under these agreements that have been material individually or in the aggregate. As of September 30, 2013, CBIZ was not aware of any material obligations arising under indemnification agreements that would require payment.

Interest Rate Risk Management

CBIZ periodically uses interest rate swaps to manage interest rate risk exposure. The interest rate swaps effectively mitigate CBIZ's exposure to interest rate risk, primarily through converting portions of the floating rate debt under the credit facility to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. At September 30, 2013 and 2012, CBIZ had an interest rate swap with a \$40.0 million notional amount, of which \$15 million will expire in June 2014 and the remaining \$25 million will expire in June 2015. Management will continue to evaluate the potential use of interest rate swaps as it deems appropriate under certain operating and market conditions. CBIZ does not enter into derivative instruments for trading or speculative purposes.

CBIZ carries \$130.0 million in 2010 Notes bearing a fixed interest rate of 4.875% that mature on October 1, 2015. CBIZ believes the fixed nature of these borrowings mitigates its interest rate risk.

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

Critical Accounting Policies

The SEC defines critical accounting policies as those that are most important to the portrayal of a company's financial condition and results and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. There have been no material changes to CBIZ's critical accounting policies from the information provided in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading Critical Accounting Policies in the Annual Report on Form 10-K for the year ended December 31, 2012.

Valuation of Goodwill

Goodwill impairment testing between annual testing dates may be required if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. A further description of assumptions used in the Company's annual impairment testing are provided in CBIZ's Annual Report on Form 10-K for the year ended December 31, 2012. There was no goodwill impairment during the year ended December 31, 2012 or during the nine months ended September 30, 2013.

CBIZ reviewed the significant assumptions that it used in its goodwill impairment analysis to determine if it was more likely than not that the fair value of each reporting unit was less than its carrying value. The analyses focused on management's current expectations of future cash flows, as well as current market conditions and other qualitative factors that impact various economic indicators that are utilized in assessing fair value. Based on these analyses and the lack of any other evidence or significant event, it was determined that the Company did not have any triggering events requiring it to perform a goodwill assessment during the nine months ended September 30, 2013.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical fact included in this Quarterly Report, including without limitation, Management's Discussion and Analysis of Financial Condition and Results of Operations regarding CBIZ's financial position, business strategy and plans and objectives for future performance are forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are commonly identified by the use of such terms and phrases as intends, believes, estimates, expects, projects, anticipates, foreseeable future, seeks, and words or phrases of similar connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated services, sales efforts, expenses, and financial results. From time to time, the Company also may provide oral or written forward-looking statements in other materials the Company releases to the public. Any or all of the Company's forward-looking statements in this Quarterly Report on Form 10-Q and in any other public statements that the Company makes, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Such forward-looking statements can be affected by inaccurate assumptions the Company might make or by known or unknown risks and

uncertainties. Should one or more of these risks or assumptions materialize, or should the underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Such risks and uncertainties include, but are not limited to: CBIZ's ability to adequately manage its growth; CBIZ's dependence on the services of its CEO and other key employees; competitive pricing pressures; general business and economic conditions; changes in governmental regulation and tax laws affecting its

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operations; reversal or decline in the current trend of outsourcing business services; revenue seasonality or fluctuations in and collectability of receivables; liability for errors and omissions of the Company's businesses; regulatory investigations and future regulatory activity (including without limitation inquiries into compensation arrangements within the insurance brokerage industry); and reliance on information processing systems and availability of software licenses. Consequently, no forward-looking statement can be guaranteed.

A more detailed description of risk factors may be found in CBIZ's Annual Report on Form 10-K for the year ended December 31, 2012, and the Company's subsequent quarterly reports filed with the SEC under the heading "Risk Factors." Except as required by the federal securities laws, CBIZ undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures the Company makes on related subjects in its filings with the SEC, such as quarterly, periodic and annual reports.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

CBIZ's floating rate debt under its credit facility exposes the Company to interest rate risk. Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. A change in the Federal Funds Rate, or the reference rate set by Bank of America, N.A., would affect the rate at which CBIZ could borrow funds under its credit facility. CBIZ's balance outstanding under its credit facility at September 30, 2013 was \$40.0 million.

CBIZ does not engage in trading market risk sensitive instruments. CBIZ periodically uses interest rate swaps to manage interest rate risk exposure. The interest rate swaps effectively modify the Company's exposure to interest rate risk, primarily through converting portions of its floating rate debt under the credit facility to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. At September 30, 2013, CBIZ had an interest rate swap with a \$40.0 million notional amount, of which \$15 million will expire in June 2014 and the remaining \$25 million will expire in June 2015. Management will continue to evaluate the potential use of interest rate swaps as it deems appropriate under certain operating and market conditions.

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

Item 4. Controls and Procedures**(a) Disclosure Controls and Procedures*****Evaluation of Disclosure Controls and Procedures***

Management has evaluated the effectiveness of the Company's disclosure controls and procedures ("Disclosure Controls") as of the end of the period covered by this report. This evaluation ("Controls Evaluation") was done with the

participation of CBIZ's Chairman and Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Disclosure Controls are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the Company in the reports that CBIZ files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed by CBIZ in the reports that it files under the Exchange Act is accumulated and communicated to management, including the CEO and CFO as appropriate, to allow timely decisions regarding required disclosure.

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Limitations on the Effectiveness of Controls

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

Conclusions

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

(b) Internal Control over Financial Reporting

There was no change in the Company's Internal Controls that occurred during the quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, CBIZ's Internal Controls.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding certain legal proceedings in which CBIZ is involved is incorporated by reference from Note 6 Commitments and Contingencies, Notes to the Company's Consolidated Financial Statements in Part I, Item I of this Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the SEC and the Company's quarterly reports subsequently filed with the SEC. These risks could materially and adversely affect the consolidated financial condition, results of operations and cash flows of CBIZ.

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

(a) Recent sales of unregistered shares

During the third quarter of 2013, approximately 73,000 shares of CBIZ common stock were issued to former owners of businesses that were acquired by CBIZ prior to 2013. The above referenced shares were issued in transactions not involving a public offering in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act. The persons to whom the shares were issued had access to full information about distribution. The certificates for the shares contain a restrictive legend advising that the shares may not be offered for sale, sold, or otherwise transferred without having first been registered under the Securities Act or pursuant to an exemption from the Securities Act. See Note 12 of the accompanying consolidated financial statements for more information regarding acquisitions.

(c) Issuer purchases of equity securities

Periodically, CBIZ's Board of Directors authorizes a Share Repurchase Plan, which allows the Company to purchase shares of its common stock in the open market or in a privately negotiated transaction according to SEC rules. On February 6, 2013, CBIZ's Board of Directors authorized a Share Repurchase Plan that authorized the purchase of up to 5.0 million shares of CBIZ common stock. The Share Repurchase Plan was effective beginning April 1, 2013 and will expire one year from the effective date. The repurchase plan does not obligate CBIZ to acquire any specific number of shares and may be suspended at any time.

Pursuant to an agreement (the Westbury Agreement) entered into on September 14, 2010 by CBIZ with its largest stockholder, Westbury (Bermuda) Ltd. (Westbury), a Bermuda exempted company organized by CBIZ founder Michael G. DeGroote, Westbury Trust, a Bermuda trust, and Michael G. DeGroote, CBIZ purchased an option for \$5.0 million to purchase up to approximately 7.7 million shares of CBIZ's common stock at a price of \$7.25 per share (the Option), which constituted the remaining shares of CBIZ's common stock held by Westbury.

On August 30, 2013, CBIZ completed a Stock Purchase Agreement entered into on July 26, 2013, (the Purchase Agreement) with Westbury, pursuant to which CBIZ agreed to purchase from Westbury 3,858,335 shares of CBIZ's common stock (the Purchased Shares), pursuant to the Westbury Agreement. CBIZ agreed to pay Westbury \$25,657,924 for the Purchased Shares, which represented a price per share of \$6.65. Following the completion of the purchase of the Purchased Shares under the Purchase Agreement, the remaining shares subject to the Westbury

Agreement (the Remaining Shares), in the amount of 3,858,334 shares, were subject to the Westbury Agreement for the remainder of its term, which expired on September 30, 2013.

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Shares repurchased during the three months ended September 30, 2013 (reported on a trade-date basis) are summarized in the table below (in thousands, except per share data).

		Issuer Purchases of Equity Securities		
		Total		Maximum
		Number		Number of
		of	Average	Shares That
		Shares	Price Paid	May Yet
		Purchased	Per	Be
		(2)	Share	Purchased
				Under the Plan
				(4)
Third Quarter Purchases (1)				
		(2)	(3)	Announced Plan
July 1	July 31, 2013			4,874
August 1	August 31, 2013	3,858	\$ 6.65	4,874
September 1	September 30, 2013			4,874
Total third quarter purchases		3,858	\$ 6.65	

- (1) CBIZ has utilized, and may utilize in the future, a Rule 10b5-1 trading plan to allow for repurchases by the Company during periods when it would not normally be active in the trading market due to regulatory restrictions. Under the Rule 10b5-1 trading plan, CBIZ was able to repurchase shares below a pre-determined price per share. Additionally, the maximum number of shares that may be purchased by the Company each day is governed by Rule 10b-18.
- (2) Represents shares repurchased through a privately negotiated transaction with Westbury as described above.
- (3) Average price paid per share includes fees and commissions.
- (4) Amounts in this column represent the shares available to be repurchased, pursuant to the Share Repurchase Plan. Effective April 1, 2013, the shares available to be purchased was reset to 5.0 million pursuant to the Share Repurchase Plan authorized on February 6, 2013, which will expire one year from the effective date.

According to the terms of CBIZ's credit facility, CBIZ is not permitted to declare or make any dividend payments, other than dividend payments made by one of its wholly owned subsidiaries to the parent company. See Note 8 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2012 for a description of working capital restrictions and limitations upon the payment of dividends.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

- 31.1 * Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 31.2 * Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 ** Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 ** Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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- 101* The following materials from CBIZ, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012, (ii) Consolidated Balance Sheets at September 30, 2013 and December 31, 2012, (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, and (iv) Notes to the Consolidated Financial Statements.

* Indicates documents filed herewith.

** Indicates document furnished herewith.

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SIGNATURE

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

CBIZ, Inc.
(Registrant)

Date: November 8, 2013

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

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