

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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

(Address of principal executive offices)

44131

(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

Smaller reporting company

(Do not check if a 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 July 31, 2011

50,661,261

CBIZ, INC. AND SUBSIDIARIES
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PART I — FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	JUNE 30, 2011	DECEMBER 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 211	\$ 724
Restricted cash	19,911	20,171
Accounts receivable, net	155,663	138,068
Income taxes refundable	—	3,684
Deferred income taxes — current	9,780	4,236
Other current assets	10,375	11,958
Assets of discontinued operations	819	640
Current assets before funds held for clients	196,759	179,481
Funds held for clients — current	99,239	73,987
Total current assets	295,998	253,468
Property and equipment, net	21,500	23,895
Deferred income taxes — non-current, net	—	837
Goodwill and other intangible assets, net	417,270	426,410
Assets of deferred compensation plan	35,516	33,361
Funds held for clients — non-current	3,936	10,216
Other assets	7,558	8,112
Total assets	<u>\$ 781,778</u>	<u>\$ 756,299</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 28,778	\$ 30,814
Income taxes payable — current	7,238	—
Accrued personnel costs	30,906	33,030
Notes payable — current	252	10,983
Convertible notes, net	—	39,250
Other current liabilities	23,949	27,321
Liabilities of discontinued operations	433	562
Current liabilities before client fund obligations	91,556	141,960
Client fund obligations	103,536	87,362
Total current liabilities	195,092	229,322
Convertible notes, net	118,530	116,577
Bank debt	149,000	118,900
Income taxes payable — non-current	5,527	5,285
Deferred income taxes — non-current, net	749	—
Deferred compensation plan obligations	35,516	33,361
Other non-current liabilities	19,757	23,182
Total liabilities	<u>524,171</u>	<u>526,627</u>
STOCKHOLDERS' EQUITY		
Common stock	1,103	1,096
Additional paid-in capital	543,168	539,389
Retained earnings	70,434	45,978
Treasury stock	(356,499)	(355,851)
Accumulated other comprehensive loss	(599)	(940)
Total stockholders' equity	257,607	229,672
Total liabilities and stockholders' equity	<u>\$ 781,778</u>	<u>\$ 756,299</u>

See the accompanying notes to the consolidated financial statements

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2011	2010	2011	2010
Revenue	\$183,110	\$180,074	\$393,001	\$389,455
Operating expenses	159,931	158,260	329,359	329,709
Gross margin	23,179	21,814	63,642	59,746
Corporate general and administrative expenses	6,850	6,638	16,511	15,622
Operating income	16,329	15,176	47,131	44,124
Other income (expense):				
Interest expense	(4,407)	(3,411)	(9,322)	(6,579)
Gain on sale of operations, net	2	2	2,745	376
Other income (expense), net	27	(2,047)	3,108	126
Total other expense, net	(4,378)	(5,456)	(3,469)	(6,077)
Income from continuing operations before income tax expense	11,951	9,720	43,662	38,047
Income tax expense	5,095	2,711	18,682	14,182
Income from continuing operations after income tax expense	6,856	7,009	24,980	23,865
Loss from discontinued operations, net of tax	(335)	(991)	(594)	(1,427)
Gain (loss) on disposal of discontinued operations, net of tax	30	(596)	70	(1,032)
Net income	<u>\$ 6,551</u>	<u>\$ 5,422</u>	<u>\$ 24,456</u>	<u>\$ 21,406</u>
Earnings (loss) per share:				
Basic:				
Continuing operations	\$ 0.14	\$ 0.11	\$ 0.50	\$ 0.39
Discontinued operations	(0.01)	(0.02)	(0.01)	(0.04)
Net income	<u>\$ 0.13</u>	<u>\$ 0.09</u>	<u>\$ 0.49</u>	<u>\$ 0.35</u>
Diluted:				
Continuing operations	\$ 0.14	\$ 0.11	\$ 0.50	\$ 0.39
Discontinued operations	(0.01)	(0.02)	(0.01)	(0.04)
Net income	<u>\$ 0.13</u>	<u>\$ 0.09</u>	<u>\$ 0.49</u>	<u>\$ 0.35</u>
Basic weighted average shares outstanding	49,615	61,448	49,469	61,479
Diluted weighted average shares outstanding	<u>49,958</u>	<u>61,837</u>	<u>49,880</u>	<u>61,972</u>

See the accompanying notes to the consolidated financial statements

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

	SIX MONTHS ENDED JUNE 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 24,456	\$ 21,406
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Loss from discontinued operations, net of tax	524	2,459
Gain on sale of operations, net	(2,745)	(376)
Depreciation and amortization expense	9,995	10,213
Amortization of discount on notes and deferred financing costs	2,814	2,572
Bad debt expense, net of recoveries	2,155	2,100
Adjustment to contingent earnout liability	(1,069)	(721)
Deferred income taxes	(4,060)	(961)
Employee stock awards	2,914	2,570
Excess tax benefits from share based payment arrangements	(102)	(65)
<i>Changes in assets and liabilities, net of acquisitions and divestitures:</i>		
Restricted cash	260	3,377
Accounts receivable, net	(19,751)	(28,695)
Other assets	1,370	1,944
Accounts payable	(2,040)	4,591
Income taxes payable/refundable	11,220	5,234
Accrued personnel costs and other liabilities	(2,365)	1,855
Net cash provided by continuing operations	23,576	27,503
Operating cash flows used in discontinued operations	(623)	(1,809)
Net cash provided by operating activities	<u>22,953</u>	<u>25,694</u>
Cash flows from investing activities:		
Business acquisitions and contingent consideration, net of cash acquired	(10,863)	(28,986)
Purchases of client fund investments	(15,114)	(9,740)
Proceeds from the sales and maturities of client fund investments	9,196	5,000
Proceeds from sales of divested and discontinued operations	694	1,058
Net (increase) decrease in funds held for clients	(12,656)	31,542
Additions to property and equipment, net	(941)	(1,401)
Other	11	13
Net cash used in investing activities	<u>(29,673)</u>	<u>(2,514)</u>
Cash flows from financing activities:		
Proceeds from bank debt	277,750	261,025
Payment of bank debt	(247,650)	(256,025)
Repurchase of convertible notes	(39,250)	—
Payment for acquisition of treasury stock	(648)	(7,602)
Net increase (decrease) in client funds obligations	16,174	(26,802)
Proceeds from exercise of stock options	768	1,144
Payment of contingent consideration of acquisitions	(330)	—
Excess tax benefit from exercise of stock awards	102	65
Debt issuance costs	(560)	(1,940)
Other	(149)	(83)
Net cash provided by (used in) financing activities	<u>6,207</u>	<u>(30,218)</u>
Net decrease in cash and cash equivalents	(513)	(7,038)
Cash and cash equivalents at beginning of year	724	7,178
Cash and cash equivalents at end of period	<u>\$ 211</u>	<u>\$ 140</u>

See the accompanying notes to the consolidated financial statements

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 June 30, 2011 and December 31, 2010, the consolidated results of their operations for the three and six months ended June 30, 2011 and 2010, and the cash flows for the six months ended June 30, 2011 and 2010. 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, 2010.

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 consolidated 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, 2010 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 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, future 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.

Reclassifications

Certain amounts in the 2010 consolidated financial statements and disclosures have been reclassified to conform to the current year presentation, including the impact of discontinued operations.

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 four practice groups. A description of revenue recognition, as it relates to those groups, is included in the Annual Report on Form 10-K for the year ended December 31, 2010.

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

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05 ("ASU 2011-05") "Comprehensive Income (Topic 220): Presentation of Comprehensive Income", which states that comprehensive income should be presented in either one or two consecutive financial statements. Companies will have the option to either present other comprehensive income on the same statement as net income, or as a separate statement that immediately follows the statement of net income. ASU 2011-05 is effective for the first reporting period after December 15, 2011, and should be applied retrospectively. The adoption of ASU 2011-05 will result in CBIZ presenting other comprehensive income on the consolidated statements of operations.

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04") "Fair Value Measurement (Topic 820) Amendments to Achieve Common fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards." ASU 2011-04 provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 does not extend the use of fair value, but rather provides additional disclosure guidance about the application of fair value in those areas where fair value is already required or permitted, especially for Level 3 fair value measurements. ASU 2011-04 is effective for the first reporting period after December 15, 2011. The amendments of this ASU will be applied prospectively, and early adoption is not permitted. The Company is currently evaluating the impact of adopting ASU 2011-04, but currently believes there will be no significant impact on its consolidated financial statements.

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

2. Accounts Receivable, Net

Accounts receivable balances at June 30, 2011 and December 31, 2010 were as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Trade accounts receivable	\$125,042	\$119,205
Unbilled revenue	40,984	29,483
Total accounts receivable	166,026	148,688
Allowance for doubtful accounts	(10,363)	(10,620)
Accounts receivable, net	<u>\$155,663</u>	<u>\$138,068</u>

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

3. Goodwill and Other Intangible Assets, Net

The components of goodwill and other intangible assets, net at June 30, 2011 and December 31, 2010 were as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Goodwill	\$341,656	\$344,086
<i>Intangible assets:</i>		
Client lists	116,611	117,029
Other intangible assets	9,336	9,506
Total intangible assets	<u>125,947</u>	<u>126,535</u>
Total goodwill and intangibles assets	467,603	470,621
<i>Accumulated amortization:</i>		
Client lists	(44,753)	(39,206)
Other intangible assets	(5,580)	(5,005)
Total accumulated amortization	<u>(50,333)</u>	<u>(44,211)</u>
Goodwill and other intangible assets, net	<u>\$417,270</u>	<u>\$426,410</u>

4. Depreciation and Amortization

Depreciation and amortization expense for property and equipment and intangible assets for the three and six months ended June 30, 2011 and 2010 was as follows (in thousands):

	<u>THREE MONTHS ENDED</u>		<u>SIX MONTHS ENDED</u>	
	<u>JUNE 30,</u>		<u>JUNE 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Operating expenses	\$ 4,877	\$ 4,981	\$ 9,815	\$ 9,997
Corporate general and administrative expenses	88	107	180	216
Total depreciation and amortization expense	<u>\$ 4,965</u>	<u>\$ 5,088</u>	<u>\$ 9,995</u>	<u>\$10,213</u>

5. Borrowing Arrangements

CBIZ had two primary debt arrangements at June 30, 2011 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.

2010 Convertible Senior Subordinated Notes

On September 27, 2010, CBIZ sold and issued \$130.0 million of 2010 Notes to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. The 2010 Notes are direct, unsecured, senior subordinated obligations of CBIZ and rank (i) junior in right of payment to all of CBIZ's existing and future senior indebtedness, (ii) equal in right of payment with any other future senior subordinated indebtedness, and (iii) senior in right of payment to all existing and future obligations, if any, that are designated as subordinated to the 2010 Notes. 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 beginning April 1, 2011. 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.

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

The carrying amount of the debt and equity components at June 30, 2011 and December 31, 2010 were as follows (in thousands):

	June 30, 2011	December 31, 2010
Principal amount of notes	\$130,000	\$ 130,000
Unamortized discount	(12,220)	(13,423)
Net carrying amount	<u>\$117,780</u>	<u>\$ 116,577</u>
Additional paid-in-capital, net of tax	<u>\$ 8,555</u>	<u>\$ 8,555</u>

The discount on the liability component of the 2010 Notes is being amortized using the effective interest method based upon an annual effective rate of 7.5%, which represents the market rate for similar debt without a conversion option at the issuance date. The discount is being amortized over the term of the 2010 Notes which is five years from the date of issuance. At June 30, 2011, the unamortized discount had a remaining amortization period of approximately 51 months. Refer to the Annual Report on Form 10-K for the year ended December 31, 2010 for additional information on the 2010 Notes.

2006 Convertible Senior Subordinated Notes

On June 1, 2011, the note holders provided notice to the Company to redeem \$39,250,000 of CBIZ's 3.125% Convertible Senior Subordinated Notes issued in 2006 (the "2006 Notes"). The 2006 Notes were settled in cash for the principal amount and any accrued and unpaid interest. The remaining \$750,000 of 2006 Notes may be redeemed by CBIZ at any time until the due date of June 1, 2026. In addition, holders of the 2006 Notes will have the right to require CBIZ to repurchase for cash all or a portion of their 2006 Notes on June 1, 2016 and June 1, 2021, at a repurchase price equal to 100% of the principal amount of the 2006 Notes to be repurchased plus accrued and unpaid interest, including contingent interest and additional amounts, if any, up to but not including, the date of repurchase. At December 31, 2010, there was \$40.0 million in aggregate principal amount of 2006 Notes outstanding, which was the remaining balance of the \$100.0 million originally issued on May 30, 2006. At December 31, 2010, the 2006 Notes were classified as a current liability based on the provision that allowed the note holders to deliver notice to the Company to redeem their notes on June 1, 2011. At June 30, 2011, the 2006 Notes were classified as a non-current liability since the remaining note holders cannot cause the redemption of their notes until June 1, 2016.

CBIZ separately accounts for the debt and equity components of the 2006 Notes. The carrying amount of the debt and equity components at June 30, 2011 and December 31, 2010 were as follow (in thousands):

	June 30, 2011	December 31, 2010
Principal amount of notes	\$ 750	\$ 40,000
Unamortized discount	—	(750)
Net carrying amount	<u>\$ 750</u>	<u>\$ 39,250</u>
Additional paid-in-capital, net of tax	<u>\$11,425</u>	<u>\$ 11,425</u>

The discount on the liability component of the 2006 Notes was amortized using the effective interest method based upon an annual effective rate of 7.8%, which represented the market rate for similar debt without a conversion option at the issuance date. The discount was amortized over five years from the date of issuance, which coincided with the first date that holders were able to require CBIZ to repurchase the 2006 Notes. At June 30, 2011, the discount was fully amortized. Refer to the Annual Report on Form 10-K for the year ended December 31, 2010 for additional information on the 2006 Notes.

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

During the three and six months ended June 30, 2011 and 2010, CBIZ recognized interest expense on the 2010 Notes and 2006 Notes as follows (in thousands):

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2011	2010	2011	2010
Contractual coupon interest	\$ 1,795	\$ 781	\$ 3,692	\$ 1,562
Amortization of discount	912	1,056	1,953	2,098
Amortization of deferred financing Costs	217	133	449	266
Total interest expense	<u>\$ 2,924</u>	<u>\$ 1,970</u>	<u>\$ 6,094</u>	<u>\$ 3,926</u>

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. On April 11, 2011, the credit facility was amended to extend the maturity date one year to June 2015, reduce interest on outstanding balances, reduce commitment fees on the unused amount, and adjust the leverage ratio limits to provide CBIZ with more flexibility. The balance outstanding under the credit facility was \$149.0 million and \$118.9 million at June 30, 2011 and December 31, 2010, respectively. Rates for the six months ended June 30, 2011 and 2010 were as follows:

	2011	2010
Weighted average rates	<u>3.52%</u>	<u>3.24%</u>
Range of effective rates	<u>2.66% - 5.75%</u>	<u>2.71% - 6.40%</u>

CBIZ had approximately \$64.8 million of available funds under the credit facility at June 30, 2011. 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. CBIZ believes it is in compliance with its debt covenants at June 30, 2011. Refer to the Annual Report on Form 10-K for the year ended December 31, 2010 for additional information on the credit facility.

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 \$2.8 million and \$3.0 million as of June 30, 2011 and December 31, 2010, respectively. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding at June 30, 2011 and December 31, 2010 was \$1.5 million.

CBIZ acted as guarantor on various letters of credit for a CPA firm with which it has an affiliation, which totaled \$2.4 million and \$3.4 million as of June 30, 2011 and December 31, 2010, respectively. 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.

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

Self-Funded Health Insurance

CBIZ maintains a self-funded comprehensive health benefit plan. Total expenses under this program are limited by stop-loss coverages on individually large claims. A third party administrator processes claims and payments, but does not assume liability for benefits payable under this plan. CBIZ assumes responsibility for funding the plan benefits out of general assets, however, employees contribute to the costs of covered benefits through premium charges, deductibles and co-pays.

The third party administrator provides the Company with reports and other information which provides a basis for the estimate of the liability at the end of each reporting period. Although management believes that it uses the best available information to determine the amount of the liability, unforeseen health claims could result in adjustments and higher costs incurred if circumstances differ from the assumptions used in estimating the liability. The liability for the self-funded health insurance plan is included in other current liabilities in the consolidated balance sheets and was \$3.7 million and \$3.4 million at June 30, 2011 and December 31, 2010, respectively. CBIZ's net healthcare costs include health claims, administration fees to the third-party administrators and premiums for stop-loss coverage.

Legal Proceedings

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

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

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

The CBIZ Parties deny all allegations of wrongdoing made against them in these actions and are vigorously defending the proceedings. The Company has been advised by Mayer Hoffman McCann PC that it denies all allegations of wrongdoing made against it and that it intends to continue vigorously

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defending the matters. Although the proceedings are subject to uncertainties inherent in the litigation process and the ultimate disposition of these proceedings is not presently determinable, management believes that the allegations are without merit and that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition, results of operations or cash flows of CBIZ.

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

7. Financial Instruments

Corporate Bonds

CBIZ held corporate bonds with par values totaling \$27.1 million and \$14.6 million at June 30, 2011 and December 31, 2010, respectively. Corporate bonds have maturity dates ranging from October 2011 through June 2016, and are included in "Funds held for clients — current" on the consolidated balance sheets as these investments are highly liquid and are classified as available-for-sale. During the six months ended June 30, 2011, CBIZ purchased bonds with a par value totaling \$15.1 million, sold bonds with a par value totaling \$1.5 million, and had an additional \$1.1 million par value of bonds that matured.

Auction Rate Securities ("ARS")

During the first six months of 2011, CBIZ sold two investments in ARS and recorded a loss of approximately \$0.1 million in "Other income (loss), net" on the consolidated statements of operations. At June 30, 2011, CBIZ had one investment in ARS with a par value of \$4.4 million and a fair value of \$3.9 million. The difference between par value and fair value was deemed to be temporary and is therefore recorded as unrealized losses in accumulated other comprehensive loss ("AOCL"), net of tax. See Note 8 for further discussion of ARS.

Interest Rate Swaps

CBIZ uses interest rate swaps to manage interest rate risk exposure. CBIZ's interest rate swaps effectively mitigate the Company's exposure to interest rate risk, 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.

CBIZ's interest rate swaps have been designated as cash flow hedges. Accordingly, the interest rate swaps are recorded as either assets or liabilities in the consolidated balance sheets at fair value. Changes in fair value are recorded as a component of other comprehensive loss, net of tax, to the extent the swaps are effective. Amounts recorded to other comprehensive loss are reclassified to interest expense as interest on the underlying debt is recognized. Net amounts due related to the swaps are recorded as adjustments to interest expense when incurred or payable. All swaps were deemed to be effective for the three and six months ended June 30, 2011 and 2010.

At inception, the critical terms of the interest rate swaps matched the underlying risks being hedged, and as such the interest rate swaps are expected to be highly effective in offsetting fluctuations in the designated interest payments resulting from changes in the benchmark interest rate. The interest rate swaps are assessed for effectiveness and continued qualification for hedge accounting on a quarterly basis. If an interest rate swap were to be de-designated as a hedge it would be accounted for as a

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financial instrument used for trading and any changes in fair value would be recorded in the consolidated statements of operations.

As a result of the use of derivative instruments, CBIZ is exposed to risk that the counterparties will fail to meet their contractual obligations. To mitigate the counterparty credit risk, CBIZ only enters into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assesses the creditworthiness of counterparties. At June 30, 2011, all of the counterparties to CBIZ's interest rate swaps had investment grade ratings. To date, all counterparties have performed in accordance with their contractual obligations. There are no credit risk-related contingent features in CBIZ's interest rate swaps nor do the swaps contain provisions under which the Company has, or would be required, to post collateral.

At June 30, 2011 and December 31, 2010, each of the interest rate swaps was classified as a liability derivative. The following table summarizes CBIZ's outstanding interest rate swaps and their effects on the consolidated balance sheets at June 30, 2011 and December 31, 2010 (in thousands).

	June 30, 2011		
	Notional Amount	Fair Value (c)	Balance Sheet Location
Interest rate swaps (a)	\$40,000	\$(67)	Other non-current liabilities

	December 31, 2010		
	Notional Amount	Fair Value (c)	Balance Sheet Location
Interest rate swaps (b)	\$20,000	\$(16)	Other current liabilities

- (a) Represents interest rate swap with a notional value of \$40.0 million, of which \$25.0 million will expire in June 2014 and the remaining \$15.0 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.
- (b) Represents two interest rate swaps, each with a notional value of \$10.0 million and terms of two years that expired in January, 2011. Under the terms of the interest rate swaps, CBIZ paid interest at a fixed rate of 1.55% and 1.59%, respectively, plus applicable margin under the credit facility, and received or paid interest that varied with the three-month LIBOR.
- (c) See additional disclosures regarding fair value measurements in Note 8.

8. Fair Value Measurements

Valuation hierarchy under GAAP categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs to the valuation methodology are unobservable and are significant to the fair value measurement.

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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table summarizes CBIZ's assets and liabilities at June 30, 2011 and December 31, 2010 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	June 30, 2011	December 31, 2010
Deferred compensation plan assets	1	\$ 35,516	\$ 33,361
Corporate bonds	1	\$ 28,814	\$ 15,255
Interest rate swaps	2	\$ (67)	\$ (16)
Auction rate securities	3	\$ 3,936	\$ 10,216
Contingent purchase price liabilities	3	\$ (15,866)	\$ (17,265)

During the six months ended June 30, 2011 and 2010, there were no transfers between the valuation hierarchy Levels 1, 2 and 3. The following table summarizes the change in fair values of the Company's assets and liabilities identified as Level 3 for the six months ended June 30, 2011 (pre-tax basis) (in thousands):

	Auction Rate Securities	Contingent Purchase Price Liabilities
Beginning balance — January 1, 2011	\$ 10,216	\$ (17,265)
Sale of auction rate securities	(6,600)	—
Payment of contingent purchase price liability	—	330
Unrealized gains included in accumulated other comprehensive loss	220	—
Change in fair value of contingency	—	1,152
Change in net present value of contingency	—	(83)
Increase in cash flows	100	—
Ending balance — June 30, 2011	<u>\$ 3,936</u>	<u>\$ (15,866)</u>

Auction Rate Securities — CBIZ's investments in ARS were classified as Level 3 as a result of liquidity issues in the ARS market, an inactive trading market of the securities, and the lack of quoted prices from broker-dealers. Accordingly, a fair value assessment was performed on each security based on a discounted cash flow model utilizing various assumptions that included maximum interest rates for each issue, probabilities of successful auctions, failed auctions or default, the timing of cash flows, the quality and level of collateral of the securities, and the rate of recovery from bond insurers in the event of default.

During the first six months of 2011, CBIZ sold two investments in ARS and as a result, recorded a loss of approximately \$0.1 million in "Other income (expense), net". At June 30, 2011, CBIZ had one investment in ARS with a par value of \$4.4 million, and at December 31, 2010, CBIZ held three investments in ARS with par values totaling \$13.4 million. Changes in the fair value of ARS resulted in an unrealized loss of \$0.1 million and an unrealized gain of \$0.9 million for the three months ended June 30, 2011 and 2010, respectively, and an unrealized gain of \$0.2 million and \$0.7 million for the six months ended June 30, 2011 and 2010, respectively. The difference in par value and fair value was determined to be temporary due to dislocation in the credit markets, the quality of the investments and their underlying collateral, and the probability of a passed auction or redemption in the future, considering the issuer's ability to refinance if necessary. ARS are included in "Funds held for clients —

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non-current", as CBIZ does not intend to sell this investment until an anticipated recovery of par value occurs. The ARS held at June 30, 2011 matures in October 2037.

Contingent Purchase Price Liabilities - Contingent purchase price liabilities resulted from business acquisitions made after January 1, 2009, 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. The contingent purchase price liabilities are included in "Other current liabilities" and "Accrued expenses — non-current", depending on the expected settlement date. During the six months ended June 30, 2011, the contingent liability decreased as a result of payments totaling \$0.3 million and a \$1.2 million adjustment to the estimate of future contingent liabilities, partially offset by net present value adjustments totaling \$0.1 million. See Note 12 for further discussion of contingent purchase price liabilities.

The following table provides additional information with regards to the ARS with temporary impairments, aggregated by the length of time that the securities have been in a continuous unrealized loss position (in thousands):

<u>Description of Security</u>	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>12 Months or Greater</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Auction rate securities	\$ 3,936	\$ 444	\$ 7,716	\$ 664

The following table presents financial instruments that are not carried at fair value but which require fair value disclosure as of June 30, 2011 and December 31, 2010 (in thousands):

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
2006 Convertible Notes	\$ 750	\$ 750	\$ 39,250	\$ 40,050
2010 Convertible Notes	\$ 117,780	\$ 159,006	\$ 116,577	\$ 141,670

Although the trading of CBIZ's 2006 Convertible Notes and 2010 Convertible Notes is limited, the fair value was determined based upon their most recent quoted trading activity. The 2006 Convertible Notes and 2010 Convertible Notes are carried at face value less any unamortized debt discount.

The carrying value of CBIZ's cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments. The carrying value of bank debt approximates fair value, as the interest rate on the bank debt is variable and approximates current market rates.

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9. Other Comprehensive Income

Other comprehensive (loss) income is reflected as a (decrease) increase to stockholders' equity and is not reflected in CBIZ's results of operations. Other comprehensive (loss) income and total comprehensive income for the three and six months ended June 30, 2011 and 2010, net of tax, was as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
Net income	\$ 6,551	\$ 5,422	\$24,456	\$21,406
Other comprehensive (loss) income:				
Net unrealized gain on available-for-sale securities, net of income taxes (1)	—	497	405	422
Net unrealized (loss) gain on interest rate swaps, net of income taxes (2)	(42)	46	(32)	50
Foreign currency translation	(17)	(21)	(32)	(36)
Total other comprehensive (loss) income	(59)	522	341	436
Comprehensive income	<u>\$ 6,492</u>	<u>\$ 5,944</u>	<u>\$24,797</u>	<u>\$21,842</u>

- (1) Net of income tax expense of \$0 and \$331 for the three months ended June 30, 2011 and 2010, respectively, and net of income tax expense of \$121 and \$281 for the six months ended June 30, 2011 and 2010, respectively.
- (2) Net of income tax (benefit) expense of (\$25) and \$27 for the three months ended June 30, 2011 and 2010, respectively, and net of income tax (benefit) expense of (\$19) and \$30 for the six months ended June 30, 2011 and 2010, respectively.

Accumulated other comprehensive loss, net of tax, was approximately \$0.6 million and \$0.9 million at June 30, 2011 and December 31, 2010, respectively. Accumulated other comprehensive loss consisted of adjustments, net of tax, to unrealized gains and losses on available-for-sale securities and interest rate swaps, and adjustments for foreign currency translation.

10. Employer Share Plans

CBIZ has granted various stock-based awards under its 2002 Stock Incentive Plan, which is described in further detail in CBIZ's Annual Report on Form 10-K for the year ended December 31, 2010. 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 six months ended June 30, 2011 and 2010 was as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
Stock options	\$ 844	\$ 732	\$ 1,561	\$ 1,492
Restricted stock awards	746	543	1,353	1,078
Total stock-based compensation expense	<u>\$ 1,590</u>	<u>\$ 1,275</u>	<u>\$ 2,914</u>	<u>\$ 2,570</u>

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Stock award activity during the six months ended June 30, 2011 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	5,653	\$ 7.42	825	\$ 7.33
Granted	1,501	\$ 7.41	483	\$ 7.34
Exercised or released	(219)	\$ 3.50	(325)	\$ 7.43
Expired or canceled	(59)	\$ 7.14	—	—
Outstanding at June 30, 2011	<u>6,876</u>	<u>\$ 7.54</u>	<u>983</u>	<u>\$ 7.30</u>
Exercisable at June 30, 2011	<u>3,375</u>	<u>\$ 7.76</u>		

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

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 six months ended June 30, 2011 and 2010 (in thousands, except per share data).

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
Numerator:				
Income from continuing operations	<u>\$ 6,856</u>	<u>\$ 7,009</u>	<u>\$24,980</u>	<u>\$23,865</u>
Denominator:				
Basic				
Weighted average common shares outstanding	<u>49,615</u>	<u>61,448</u>	<u>49,469</u>	<u>61,479</u>
Diluted				
Stock options (1)	66	104	78	130
Restricted stock awards	132	70	188	148
Contingent shares (2)	145	215	145	215
Diluted weighted average common shares outstanding	<u>49,958</u>	<u>61,837</u>	<u>49,880</u>	<u>61,972</u>
Basic earnings per share from continuing operations	<u>\$ 0.14</u>	<u>\$ 0.11</u>	<u>\$ 0.50</u>	<u>\$ 0.39</u>
Diluted earnings per share from continuing operations	<u>\$ 0.14</u>	<u>\$ 0.11</u>	<u>\$ 0.50</u>	<u>\$ 0.39</u>

(1) A total of 6.8 million and 6.1 million share based awards were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2011, respectively, and a total of 5.4 million and 4.9 million share based awards were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2010, respectively, as their exercise prices would render them anti-dilutive.

(2) Contingent shares represent additional shares to be issued for purchase price earned by former owners of businesses acquired by CBIZ once future conditions have been met.

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12. Acquisitions

During the six months ended June 30, 2011, CBIZ did not acquire any businesses or client lists. CBIZ paid \$11.3 million in cash and issued approximately 265,000 shares of common stock during the six months ended June 30, 2011 as contingent earnouts for previous acquisitions. In addition, CBIZ reduced the fair value of the contingent purchase price liability related to CBZ's prior acquisitions by \$1.2 million due to lower than originally projected future results of the acquired businesses. This reduction of \$1.2 million is included in "Other (expense) income, net" in the consolidated statements of operations. See Note 8 for further discussion of contingent purchase price liabilities.

During the six months ended June 30, 2010, CBIZ acquired substantially all of the assets of two companies, Goldstein Lewin & Company and National Benefit Alliance. Goldstein Lewin & Company, an accounting and financial services company located in Boca Raton, Florida, was acquired on January 1, 2010 and is included in the operating results of the Financial Services practice group. National Benefit Alliance, an employee benefits company located in Midvale, Utah, was also acquired on January 1, 2010 and is included in the operating results of the Employee Services practice group. Aggregate consideration for these acquisitions consisted of approximately \$13.2 million in cash, \$1.8 million in CBIZ common stock, \$0.3 million in guaranteed future consideration, and \$10.0 million in contingent consideration, subject to the acquired operations achieving certain performance targets.

The operating results of these 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 contingent consideration earned on prior period acquisitions during the six months ended June 30, 2011, and for acquisitions and contingent consideration earned on prior period acquisitions during the six months ended June 30, 2010 were as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Goodwill	\$ 21	\$18,791
Client lists	\$ 108	\$ 5,560
Other intangible assets	\$ —	\$ 246

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

Gains or losses from the sale of discontinued operations are recorded as "Gain (loss) on disposal of discontinued operations, net of tax", in the accompanying consolidated statements of operations. Additionally, proceeds that are contingent upon a divested operation's actual future performance are recorded as gain on sale of discontinued operations in the period they are earned. During the six months ended June 30, 2011, CBIZ sold a business from the Financial Services practice group and will receive contingent proceeds from this sale transaction based on revenue over the next three-year period. As part of the sale of this business, CBIZ reduced its goodwill balance by approximately \$0.3 million.

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During the six months ended June 30, 2010, CBIZ sold two businesses and closed one business from the National Practices group. Proceeds from the sales consisted of \$0.2 million in cash and resulted in a pre-tax loss of approximately \$0.8 million, and the office closure resulted in a pre-tax loss of approximately \$1.1 million.

Revenue and results from operations of discontinued operations for the three and six months ended June 30, 2011 and 2010 are separately reported as "Loss from discontinued operations, net of tax" in the consolidated statements of operations and were as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
Revenue	\$ 342	\$ 1,229	\$ 919	\$ 4,343
Loss from discontinued operations, before income tax	\$ (532)	\$ (1,625)	\$ (957)	\$ (2,353)
Income tax benefit	197	634	363	926
Loss from discontinued operations, net of tax	<u>\$ (335)</u>	<u>\$ (991)</u>	<u>\$ (594)</u>	<u>\$ (1,427)</u>

Gain (loss) on the disposal of discontinued operations for the three and six months ended June 30, 2011 and 2010 were as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
Gain (loss) on disposal of discontinued operations, before income tax	\$ 50	\$ (993)	\$ 117	\$ (1,883)
Income tax (expense) benefit	(20)	397	(47)	851
Gain (loss) on disposal of discontinued operations, net of tax	<u>\$ 30</u>	<u>\$ (596)</u>	<u>\$ 70</u>	<u>\$ (1,032)</u>

At June 30, 2011 and December 31, 2010, 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):

	June 30, 2011	December 31, 2010
Assets:		
Accounts receivable, net	\$ 194	\$ 381
Other assets	625	259
Assets of discontinued operations	<u>\$ 819</u>	<u>\$ 640</u>
Liabilities:		
Accounts payable	\$ 33	\$ 90
Accrued personnel costs	122	228
Other current liabilities	278	244
Liabilities of discontinued operations	<u>\$ 433</u>	<u>\$ 562</u>

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 operations. During the six months ended June 30, 2011, CBIZ recognized a gain of \$2.3 million from the sale of its individual wealth management business and gains of \$0.4 million for the sales of client lists. Cash proceeds from the sale of the business and client list totaled approximately \$7.2 million, of which

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approximately \$6.7 million was received on December 31, 2010. As part of the sale of the individual wealth management business, CBIZ reduced its goodwill balance by approximately \$2.2 million.

During the six months ended June 30, 2010, CBIZ recognized a gain of \$0.4 million from the sale of a client list. Cash proceeds from this sale were \$0.4 million.

14. Segment Disclosures

CBIZ's business units have been aggregated into four practice groups: Financial Services, Employee Services, Medical Management Professionals ("MMP"), 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 practice group, is provided in the following table.

<u>Financial Services</u>	<u>Employee Services</u>	<u>MMP</u>	<u>National Practices</u>
• Accounting	• Group Health	• Coding and Billing	• Managed Networking and Hardware Services
• Tax	• Property & Casualty	• Accounts Receivable Management	• Health Care Consulting
• Financial Advisory	• Retirement Plan Services	• Full Practice Management Services	• Mergers & Acquisitions
• Valuation	• Payroll Services		
• Litigation Support	• Life Insurance		
• Internal Audit	• Human Capital Management		
• Family Office Services	• Compensation Consulting		
• Fraud Detection	• Recruiting		
• Real Estate Advisory	• Actuarial Services		

Corporate and Other. Included in Corporate and Other are operating expenses that are not directly allocated to the individual business units. These expenses are primarily comprised of 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 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, 2010. Upon consolidation, all intercompany accounts and transactions are eliminated; thus inter-segment revenue is not included in the measure of profit or loss for the practice groups. Performance of the practice groups is evaluated on operating income excluding the costs of certain infrastructure functions (such as information systems, finance and accounting, human resources, legal and marketing), which are reported in the "Corporate and Other" segment.

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Segment information for the three and six months ended June 30, 2011 and 2010 was as follows (in thousands):

	THREE MONTHS ENDED JUNE 30, 2011					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	\$96,253	\$43,197	\$35,654	\$ 8,006	\$ —	\$183,110
Operating expenses	82,732	36,059	31,459	6,794	2,887	159,931
Gross margin	13,521	7,138	4,195	1,212	(2,887)	23,179
Corporate general & admin	—	—	—	—	6,850	6,850
Operating income (loss)	13,521	7,138	4,195	1,212	(9,737)	16,329
Other income (expense):						
Interest expense	(5)	(6)	—	—	(4,396)	(4,407)
Gain on sale of operations, net	—	—	—	—	2	2
Other income (expense), net	63	159	79	—	(274)	27
Total other income (expense)	58	153	79	—	(4,668)	(4,378)
Income (loss) from continuing operations before income tax expense	<u>\$13,579</u>	<u>\$ 7,291</u>	<u>\$ 4,274</u>	<u>\$ 1,212</u>	<u>\$(14,405)</u>	<u>\$ 11,951</u>
	THREE MONTHS ENDED JUNE 30, 2010					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	\$91,378	\$43,828	\$38,018	\$ 6,850	\$ —	\$180,074
Operating expenses	81,463	36,650	33,346	6,582	219	158,260
Gross margin	9,915	7,178	4,672	268	(219)	21,814
Corporate general & admin	—	—	—	—	6,638	6,638
Operating income (loss)	9,915	7,178	4,672	268	(6,857)	15,176
Other income (expense):						
Interest expense	(2)	(6)	—	—	(3,403)	(3,411)
Gain on sale of operations, net	—	—	—	—	2	2
Other income (expense), net	55	28	82	—	(2,212)	(2,047)
Total other income (expense)	53	22	82	—	(5,613)	(5,456)
Income (loss) from continuing operations before income tax expense	<u>\$ 9,968</u>	<u>\$ 7,200</u>	<u>\$ 4,754</u>	<u>\$ 268</u>	<u>\$(12,470)</u>	<u>\$ 9,720</u>

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

	SIX MONTHS ENDED JUNE 30, 2011					Total
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	
Revenue	\$218,361	\$87,632	\$71,065	\$15,943	\$ —	\$393,001
Operating expenses	172,459	72,655	63,533	13,451	7,261	329,359
Gross margin	45,902	14,977	7,532	2,492	(7,261)	63,642
Corporate general & admin	—	—	—	—	16,511	16,511
Operating income (loss)	45,902	14,977	7,532	2,492	(23,772)	47,131
Other income (expense):						
Interest expense	(5)	(12)	—	—	(9,305)	(9,322)
Gain on sale of operations, net	—	—	—	—	2,745	2,745
Other income, net	121	530	148	—	2,309	3,108
Total other income (expense)	116	518	148	—	(4,251)	(3,469)
Income (loss) from continuing operations before income tax expense	<u>\$ 46,018</u>	<u>\$ 15,495</u>	<u>\$ 7,680</u>	<u>\$ 2,492</u>	<u>\$(28,023)</u>	<u>\$ 43,662</u>
	SIX MONTHS ENDED JUNE 30, 2010					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	\$211,947	\$90,616	\$73,336	\$13,556	\$ —	\$389,455
Operating expenses	169,784	73,799	67,436	13,072	5,618	329,709
Gross margin	42,163	16,817	5,900	484	(5,618)	59,746
Corporate general & admin	—	—	—	—	15,622	15,622
Operating income (loss)	42,163	16,817	5,900	484	(21,240)	44,124
Other income (expense):						
Interest expense	(5)	(12)	—	—	(6,562)	(6,579)
Gain on sale of operations, net	—	—	—	—	376	376
Other income (expense), net	130	166	171	—	(341)	126
Total other income (expense)	125	154	171	—	(6,527)	(6,077)
Income (loss) from continuing operations before income tax expense	<u>\$ 42,288</u>	<u>\$ 16,971</u>	<u>\$ 6,071</u>	<u>\$ 484</u>	<u>\$(27,767)</u>	<u>\$ 38,047</u>

15. Subsequent Events

On August 1, 2011, CBIZ acquired two businesses: Thompson Dunavant (“TD”) and Multiple Benefit Services, Inc. (“MBS”). TD is an accounting and financial services firm located in Memphis, Tennessee and provides tax and financial consulting services to a wide array of clients from small closely-held companies to large multi-national businesses in a variety of industries. Revenues for TD during the past twelve months approximated \$15.7 million. MBS is an employee benefits consulting firm located in Atlanta, Georgia and provides employee benefit consulting and support services to both small and large companies in a number of industries. Revenue for MBS during the last twelve months approximated \$3.5 million. The results of operations for both of these acquired companies for the last five months of 2011 are not expected to significantly contribute to CBIZ’s 2011 earnings. The operating results for TD and MBS will be reported in the Financial Services group and Employees Services group, respectively.

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 June 30, 2011 and December 31, 2010, results of operations for the three and six months ended June 30, 2011 and 2010, and cash flows for the six months ended June 30, 2011 and 2010, 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, 2010. 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, 2010.

Overview

CBIZ provides professional business services that help clients manage 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 four practice groups: Financial Services, Employee Services, Medical Management Professionals ("MMP"), 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, 2010 for further discussion of external relationships and regulatory factors that currently impact CBIZ's operations.

Executive Summary

Revenue for the three months ended June 30, 2011 increased by 1.7% to \$183.1 million from the \$180.1 million reported for the comparable period in 2010. Same-unit revenue increased \$1.3 million, or 0.8%, and revenue from newly acquired operations, net of divestitures, contributed \$1.7 million, or 0.9% to the growth in revenue. Revenue for the six months ended June 30, 2011 increased by 0.9% to \$393.0 million from the \$389.5 million reported for the comparable period in 2010. Revenue from newly acquired operations, net of divestitures, contributed \$5.3 million, or 1.3% to the growth in revenue, which was offset by same-unit revenue declines of \$1.7 million, or 0.4%.

Operating expenses increased by \$1.7 million or 1.1%, but decreased as a percentage of revenue to 87.3% for the three months ended June 30, 2011 from 87.9% for the three months ended June 30, 2010. For the six months ended June 30, 2011, operating expenses decreased by \$0.4 million, or 0.1%, and decreased as a percentage of revenue to 83.8% compared to 84.7% reported for the same period last year. Included in operating expenses for the three months ended June 30, 2011 were deferred compensation costs of \$0.1 million, which unfavorably impacted gross margin. For the three months ended June 30, 2010, operating expenses included a deferred compensation benefit of \$2.0 million, which resulted in a favorable impact to gross margin. For the six months ended June 30, 2011, operating expenses included deferred compensations costs of \$1.5 million, which unfavorably impacted gross margin, and for the six months ended June 30, 2010, a deferred compensation benefit of \$0.9 million resulted in a favorable impact to gross margin.

Earnings per share from continuing operations was \$0.14 per diluted share for the three months ended June 30, 2011 and \$0.11 for the comparable period in 2010. For the six months ended June 30, 2011, earnings per diluted share was \$0.50 compared to \$0.39 for the same period last year. Earnings per share for the six months ended June 30, 2011 included a gain of approximately \$0.02 per diluted share related to the divestiture of the wealth management business, and earnings per share for the six months ended June 30, 2010 included a charge of \$0.02 per diluted share for lease restructuring activities in connection with the acquisition of Goldstein Lewin & Company in Boca Raton, Florida.

Cash earnings per diluted share were \$0.29 and \$0.23 for the three months ended June 30, 2011 and 2010, respectively, and \$0.78 and \$0.63 for the six months ended June 30, 2011 and 2010, respectively.

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CBIZ believes cash earnings per diluted share more clearly illustrates the impact of certain non-cash charges to income from continuing operations and is a useful measure for the Company and its analysts. Cash earnings per diluted share is a measurement prepared on a basis other than generally accepted accounting principles (“GAAP”), otherwise known as a non-GAAP measure. 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 months and six months ended June 30, 2011 and 2010 are provided in the “Results of Operations — Continuing Operations” section that follows.

On June 1, 2011, the holders of CBIZ’s 3.125% Convertible Senior Subordinated Notes issued in 2006 (the “2006 Notes”) provided notice to the Company to redeem \$39.3 million of the outstanding \$40.0 million 2006 Notes. The 2006 Notes were settled in cash for the principal amount and any accrued and unpaid interest. The remaining \$750,000 of 2006 Notes may be redeemed by CBIZ at any time until the due date of June 1, 2026. The holders of the 2006 Notes have the right to require CBIZ to repurchase their 2006 Notes on June 1, 2016 and June 1, 2021 for 100% of the principal plus any accrued interest.

On August 1, 2011, CBIZ acquired two businesses: Thompson Dunavant (“TD”) and Multiple Benefit Services, Inc. (“MBS”). TD is an accounting and financial services firm located in Memphis, Tennessee and provides tax and financial consulting services to a number of clients ranging from small closely-held companies to large multi-national businesses. MBS is an employee benefits consulting firm located in Atlanta, Georgia and provides employee benefit consulting and support services to both small and large companies. Annual revenues for TD and MBS approximate \$15.7 million and \$3.5 million, respectively.

Results of Operations — Continuing Operations

Same-unit revenue represents total revenue adjusted to reflect comparable periods of activity for acquisitions and divestitures. For example, for a business acquired on June 1, 2010, revenue for the month of June would be included in same-unit revenue for both years; revenue for the period January 1, 2011 through May 31, 2011 would be reported as revenue from acquired businesses.

Three Months Ended June 30, 2011 and 2010

Revenue — The following table summarizes total revenue for the three months ended June 30, 2011 and 2010 (in thousands, except percentages).

	THREE MONTHS ENDED JUNE 30,					
	2011	% of Total	2010	% of Total	\$ Change	% Change
<i>Same-unit revenue</i>						
Financial Services	\$ 93,324	51.0%	\$ 91,378	50.8%	\$ 1,946	2.1%
Employee Services	42,735	23.3%	42,132	23.4%	603	1.4%
MMP	35,654	19.5%	38,018	21.1%	(2,364)	(6.2)%
National Practices	8,006	4.4%	6,850	3.8%	1,156	16.9%
Total same-unit revenue	179,719	98.2%	178,378	99.1%	1,341	0.8%
Acquired businesses	3,381	1.8%	—	—	3,381	
Divested operations	10	—	1,696	0.9%	(1,686)	
Total revenue	<u>\$183,110</u>	<u>100.0%</u>	<u>\$180,074</u>	<u>100.0%</u>	<u>\$ 3,036</u>	1.7%

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

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Gross margin and operating expenses — Operating expenses increased by \$1.7 million to \$159.9 million for the three months ended June 30, 2011 from \$158.2 million for the comparable period of 2010, but decreased as a percentage of revenue to 87.3% for the three months ended June 30, 2011 from 87.9% for the comparable period of 2010. The primary components of operating expenses for the three months ended June 30, 2011 and 2010 are included in the following table:

	2011		2010		Change in % of Revenue
	% of Operating Expense	% of Revenue	% of Operating Expense	% of Revenue	
Personnel costs	74.4%	65.0%	75.5%	66.4%	(1.4)%
Occupancy costs	6.8%	5.9%	7.0%	6.2%	(0.3)%
Depreciation and amortization	3.1%	2.7%	3.2%	2.8%	(0.1)%
Travel and related costs	3.2%	2.8%	2.9%	2.5%	0.3%
Other (1)	12.5%	10.9%	12.6%	11.1%	(0.2)%
Subtotal		87.3%		89.0%	(1.7)%
Deferred compensation costs	—	—	(1.2)%	(1.1)%	1.1%
Total operating expenses		87.3%		87.9%	(0.6)%
Gross margin		12.7%		12.1%	0.6%

(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 was a result of a reduction in staffing at certain locations. The increase in deferred compensation costs as a percentage of revenue is due to a modest gain in the value of the assets held in relation to CBIZ's deferred compensation plan, or an unfavorable impact to gross margin, for the three months ended June 30, 2011 compared to a loss, or a favorable impact to gross margin, of \$2.0 million for the comparable period in 2010. The decrease in occupancy costs as a percentage of revenue was due to efforts to consolidate certain locations related to the Company's MMP business. 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 general and administrative ("G&A") expenses increased by \$0.3 million to \$6.9 million for the three months ended June 30, 2011 from \$6.6 million for the comparable period of 2010, and increased as a percentage of revenue to 3.8% for the three months ended June 30, 2011 from 3.7% for the comparable period of 2010. The primary components of G&A expenses for the three months ended June 30, 2011 and 2010 are included in the following table:

	2011		2010		Change in % of Revenue
	% of G&A Expense	% of Revenue	% of G&A Expense	% of Revenue	
Personnel costs	53.2%	2.0%	49.2%	1.8%	0.2%
Professional services	12.3%	0.5%	18.0%	0.7%	(0.2)%
Computer costs	6.4%	0.2%	5.7%	0.2%	—
Travel and related costs	5.0%	0.2%	3.9%	0.1%	0.1%
Depreciation and amortization	1.3%	0.0%	1.5%	0.1%	(0.1)%
Other (1)	21.8%	0.9%	21.7%	0.8%	0.1%
Total G&A expenses		3.8%		3.7%	0.1%

(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.

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 accruals as a greater percentage of the estimated annual incentive payout was accrued during the three months ended June 30, 2011 compared to the same period

in 2010. Offsetting the personnel costs increase was a reduction in professional services, primarily related to legal expenses. The decrease in legal expenses during the three months ended June 30, 2011 compared to the same period in 2010 was primarily due to legal expenses being slightly higher than normal during 2010 as the Company brought several longstanding legal matters to a conclusion. A favorable judgment was granted and the Company recouped a significant portion of these fees subsequently in 2010.

Interest expense — Interest expense increased by \$1.0 million to \$4.4 million for the three months ended June 30, 2011 from \$3.4 million for the comparable period in 2010. The increase in interest expense relates to a net increase of \$0.9 million related to the senior subordinated convertible notes and an increase of \$0.1 million related to the credit facility. The increase related to the senior subordinated convertible notes is primarily due to a \$49.6 million increase in average carrying amount of the senior subordinated convertible notes to \$143.8 million for the three months ended June 30, 2011 from \$94.2 million for the comparable period in 2010. The increase in interest expense related to the credit facility is due to an increase in amortization of deferred debt costs and an increase in the average outstanding balance, partially offset by a decrease in the weighted average interest rates. Average debt outstanding under the credit facility was \$139.2 million and \$129.3 million and weighted average interest rates were 3.1% and 3.4% for the three months ended June 30, 2011 and 2010, respectively. The increase in deferred debt costs is due to additional costs incurred related to the new credit facility that was put into effect in June 2010, as well as the additional costs incurred from the April 2011 amendment to the credit facility. See Note 5 of the accompanying consolidated financial statements for further discussion of CBIZ's debt arrangements.

Other income (expense), net — Other income (expense), 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 prior acquisitions. For the three months ended June 30, 2011 compared to the same period last year, gains in the fair value of investments related to the deferred compensation contributed \$2.2 million of the \$2.1 million increase in other income, net. 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 operations.

Income tax expense — CBIZ recorded income tax expense from continuing operations of \$5.1 million and \$2.7 million for the three months ended June 30, 2011 and 2010, respectively. The effective tax rate for the three months ended June 30, 2011 was 42.6%, compared to an effective tax rate of 27.9% for the comparable period in 2010. The increase in the effective tax rate primarily relates to the reversal of estimated tax reserves in 2010 due to the expiration of certain statutes of limitation and a net increase in the Company's valuation allowance related to state tax credits in the second quarter of 2011.

Earnings per share and cash earnings per share — Earnings per share from continuing operations were \$0.14 and \$0.11 per diluted share for the three months ended June 30, 2011 and 2010, respectively, and cash earnings per share were \$0.29 and \$0.23 per diluted share for the three months ended June 30, 2011 and 2010, respectively. The Company believes cash earnings and cash earnings per diluted share (non-GAAP measures) more clearly illustrate the impact of certain non-cash charges and credits to income from continuing operations and are a useful measure for the Company and its analysts. Cash earnings and cash 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 cash earnings from continuing operations and diluted earnings per share from continuing operations to cash earnings per diluted share for the three months ended June 30, 2011 and 2010.

CASH EARNINGS AND PER SHARE DATA
Reconciliation of Income from Continuing Operations to Cash Earnings from Continuing Operations

	THREE MONTHS ENDED JUNE 30,			
	2011	Per Share	2010	Per Share
	(In thousands, except per share data)			
Income from continuing operations	\$ 6,856	\$ 0.14	\$ 7,009	\$ 0.11
Selected non-cash charges:				
Depreciation and amortization	4,965	0.10	5,088	0.08
Non-cash interest on convertible notes	912	0.02	1,056	0.02
Stock-based compensation	1,590	0.03	1,275	0.02
Non-cash charges	<u>\$ 7,467</u>	<u>\$ 0.15</u>	<u>\$ 7,419</u>	<u>\$ 0.12</u>
Cash earnings — continuing operations	<u>\$14,323</u>	<u>\$ 0.29</u>	<u>\$ 14,428</u>	<u>\$ 0.23</u>

Operating Practice Groups

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

Financial Services

	THREE MONTHS ENDED JUNE 30,			
	2011	2010	\$ Change	% Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$93,324	\$91,378	\$ 1,946	2.1%
Acquired businesses.	2,929	—	2,929	
Total revenue	<u>\$96,253</u>	<u>\$91,378</u>	<u>\$ 4,875</u>	5.3%
Operating expenses	<u>82,732</u>	<u>81,463</u>	<u>1,269</u>	1.6%
Gross margin	<u>\$13,521</u>	<u>\$ 9,915</u>	<u>\$ 3,606</u>	36.4%
Gross margin percent	<u>14.0%</u>	<u>10.9%</u>		

The increase in same-unit revenue was primarily the result of stronger performance in several of the units that provide certain national services. With respect to the accounting units, same-unit aggregate hours charged to clients declined approximately 4% for the three months ended June 30, 2011 compared to the three months ended June 30, 2010, which was partially offset by a 3% increase in effective rates realized for services provided for the three months ended June 30, 2011 versus the comparable period in the prior year. The decline in hours was primarily due to decreased client demand. The improvement in rates realized for services provided was due to a modest increase in rates as well as improved engagement efficiencies. Revenue from acquired businesses was a result of the acquisition of Kirkland, Russ, Murphy, & Tapp ("KRMT"), which occurred on November 1, 2010.

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 operations and were approximately \$26.9 million and \$26.2 million for the three months ended June 30, 2011 and 2010, respectively, a majority of which is related to services rendered to privately-held clients. The increase in ASA fees is primarily the result of the acquisition of KRMT.

The largest components of operating expenses for the Financial Services group are personnel costs, occupancy costs, and travel and related costs which represented 88.8% of total operating expenses for

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both the three months ended June 30, 2011 and 2010. Personnel costs increased \$0.7 million for the three months ended June 30, 2011 compared to the same period in 2010, and represented 78.7% and 79.0% of total operating expenses for the three months ended June 30, 2011 and 2010, respectively. The increase was attributable to \$2.1 million associated with the acquisition of KRMT, offset by select staff reductions in certain units totaling \$1.4 million. Personnel costs represented 67.6% and 70.4% of revenue for the three months ended June 30, 2011 and 2010, respectively. Occupancy costs are relatively fixed in nature and were \$5.7 million for both the three months ended June 30, 2011 and 2010. Travel and related costs were \$2.7 million and \$2.3 million for the three months ended June 30, 2011 and 2010, respectively, and were 2.8% and 2.5% of revenue for the three months ended June 30, 2011 and 2010, respectively. The increase in travel and related costs was partially due to increased client development efforts.

Gross margin percentage increased to 14.0% for the three months ended June 30, 2011 compared to 10.9% for the same period in 2010. The increase was due largely to lower same-unit personnel costs as described above.

Employee Services

	THREE MONTHS ENDED JUNE 30,			
	2011	2010	\$ Change	% Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$42,735	\$42,132	\$ 603	1.4%
Acquired businesses	452	—	452	
Divested operations	10	1,696	(1,686)	
Total revenue	\$43,197	\$43,828	\$ (631)	(1.4)%
Operating expenses	36,059	36,650	(591)	(1.6)%
Gross margin	\$ 7,138	\$ 7,178	\$ (40)	(0.6)%
Gross margin percent	16.5%	16.4%		

The increase in same-unit revenue was primarily attributable to increases in the Company's retirement plan advisory, specialty life insurance and human capital advisory businesses, including payroll, offset in part by decreases in the employee benefits and property and casualty businesses. Revenues increased approximately \$0.4 million in the retirement advisory business due to higher asset values resulting largely from favorable market performance, and specialty life insurance revenues increased \$0.9 million due to an increase in the number of policy placements. Human capital advisory and payroll revenues increased approximately \$0.8 million due to an increase in demand for recruiting and pricing for payroll-related services. Partially offsetting these increases was a decrease in the Company's employee benefits revenues of approximately \$1.0 million due to client attrition and a decrease in property and casualty revenues of \$0.5 million due to soft market conditions in pricing. The growth in revenue from acquired businesses was provided by Benexx, a retirement plan business in Maryland that was acquired in the third quarter of 2010. The decline in revenue from divestitures was due to the sale of the Wealth Management Advisory business in the first quarter of 2011.

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 83.6% and 83.1% of total operating expenses for the three months ended June 30, 2011 and 2010, respectively. Excluding personnel costs during the three months ended June 30, 2010 related to the divested wealth management businesses of \$1.4 million, personnel costs increased approximately \$0.2 million, primarily as a result of more commissions paid to third party brokers related to the increase in specialty life insurance sales. Personnel costs represented 64.3% and 63.8% of revenue for the three months ended June 30, 2011 and 2010, respectively. Occupancy costs are relatively fixed in nature and were \$2.4 million for the three months ended June 30, 2011 and 2010.

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National Practices

	THREE MONTHS ENDED JUNE 30,			
	2011	2010	\$ Change	% Change
Same-unit revenue	\$ 8,006	\$ 6,850	\$ 1,156	16.9%
Operating expenses	6,794	6,582	212	3.2%
Gross margin	\$ 1,212	\$ 268	\$ 944	352.2%
Gross margin percent	15.1%	3.9%		

The increase in revenue was attributable to an increase of \$0.8 million in CBIZ's mergers and acquisitions business and \$0.3 million from the healthcare consulting business. The increase in the mergers and acquisitions business was a result of earning a success fee for completing a transaction during the second quarter of 2011, whereas no transactions were completed during the same period in 2010. The increase in the healthcare consulting business was primarily due to an expansion of coding and auditing services performed in the clinical business and an increase in Medicaid eligibility services provided to clients.

The largest components of operating expenses for the National Practices group are personnel costs, occupancy costs, and travel and related costs representing 95.2% and 93.6% of total operating expenses for the three months ended June 30, 2011 and 2010, respectively. Personnel costs increased \$0.3 million for the three months ended June 30, 2011 compared to the same period in 2010, but decreased as a percentage of revenue to 78.0% of revenue for the three months ended June 30, 2011 compared to 87.2% of revenue for the same period last year. The increase in personnel costs is due primarily to additional incentive compensation to certain individuals in the mergers and acquisitions business resulting from completing a transaction during the three months ended June 30, 2011. Occupancy costs and travel and related costs were relatively flat for the three months ended June 30, 2011 and 2010.

The increase in gross margin is primarily the result of an increase in revenue, as described above, combined with relatively flat operating expenses for the three months ended June 30, 2011 compared with the same period last year.

Six Months Ended June 30, 2011 and 2010

Revenue — The following table summarizes total revenue for the six months ended June 30, 2011 and 2010 (in thousands, except percentages).

	SIX MONTHS ENDED JUNE 30,					
	2011	% of Total	2010	% of Total	\$ Change	% Change
Same-unit revenue						
Financial Services	\$210,695	53.6%	\$211,947	54.4%	\$ (1,252)	(0.6)%
Employee Services	86,597	22.0%	87,197	22.4%	(600)	(0.7)%
MMP	71,065	18.1%	73,336	18.8%	(2,271)	(3.1)%
National Practices	15,943	4.1%	13,556	3.5%	2,387	17.6%
Total same-unit revenue	384,300	97.8%	386,036	99.1%	(1,736)	(0.4)%
Acquired businesses	8,637	2.2%	—	—	8,637	
Divested operations	64	—	3,419	0.9%	(3,355)	
Total revenue	\$393,001	100.0%	\$389,455	100.0%	\$ 3,546	0.9%

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

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Gross margin and operating expenses — Operating expenses decreased to \$329.3 million for the six months ended June 30, 2011 from \$329.7 million for the comparable period of 2010, and decreased as a percentage of revenue to 83.8% for the six months ended June 30, 2011 from 84.7% for the comparable period of 2010. The primary components of operating expenses for the six months ended June 30, 2011 and 2010 are included in the following table:

	2011		2010		Change in % of Revenue
	% of Operating Expense	% of Revenue	% of Operating Expense	% of Revenue	
Personnel costs	74.3%	62.2%	75.0%	63.5%	(1.3)%
Occupancy costs	6.7%	5.6%	6.9%	5.8%	(0.2)%
Depreciation and amortization	3.0%	2.5%	3.0%	2.6%	(0.1)%
Travel and related costs	3.0%	2.5%	2.7%	2.3%	0.2%
Other (1)	12.5%	10.6%	12.7%	10.7%	(0.1)%
Subtotal		83.4%		84.9%	(1.5)%
Deferred compensation costs	0.5%	0.4%	(0.3)%	(0.2)%	0.6%
Total operating expenses		83.8%		84.7%	(0.9)%
Gross margin		16.2%		15.3%	0.9%

(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 was a result of a reduction in staffing at certain locations. The increase in deferred compensation costs as a percentage of revenue is due to a gain, or an unfavorable impact to gross margin, of \$1.5 million in the value of the assets held in relation to CBIZ's deferred compensation plan for the six months ended June 30, 2011 compared to a loss, or a favorable impact to gross margin, of \$0.9 million for the comparable period in 2010. 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 by \$0.9 million to \$16.5 million for the six months ended June 30, 2011 from \$15.6 million for the comparable period of 2010, and increased as a percentage of revenue to 4.2% for the six months ended June 30, 2011 from 4.0% for the comparable period of 2010. The primary components of G&A expenses for the six months ended June 30, 2011 and 2010 are included in the following table:

	2011		2010		Change in % of Revenue
	% of G&A Expense	% of Revenue	% of G&A Expense	% of Revenue	
Personnel costs	62.3%	2.6%	53.4%	2.1%	0.5%
Professional services	10.4%	0.4%	18.9%	0.8%	(0.4)%
Computer costs	5.3%	0.2%	4.8%	0.2%	—
Travel and related costs	3.7%	0.2%	3.1%	0.1%	0.1%
Depreciation and amortization	1.1%	—	1.3%	0.1%	(0.1)%
Other (1)	17.2%	0.8%	18.5%	0.7%	0.1%
Total G&A expenses		4.2%		4.0%	0.2%

(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 accruals as a greater percentage of the estimated annual incentive payout was accrued during the six months ended June 30, 2011 compared to the same period in 2010. Offsetting the personnel costs increase was a reduction in professional services, primarily related to legal expenses. The decrease in legal expenses during the six months ended June 30, 2011 compared to the same period last year was primarily due to legal expenses being slightly higher than normal during the six months ended June 30, 2010 as the Company brought several longstanding legal matters to a conclusion. A favorable judgment was granted and the Company recouped a significant portion of these fees subsequently in 2010.

Interest expense — Interest expense increased by \$2.7 million to \$9.3 million for the six months ended June 30, 2011 from \$6.6 million for the comparable period in 2010. The increase in interest expense relates to a net increase of \$2.1 million related to the senior subordinated convertible notes and an increase of \$0.6 million related to the credit facility. The increase related to the senior subordinated convertible notes is primarily due to a \$55.6 million increase in average carrying amount of the senior subordinated convertible notes to \$149.5 million for the first six months of 2011 from \$93.9 million for the comparable period in 2010. The increase in interest expense related to the credit facility is due to an increase in the weighted average interest rates and an increase in amortization of deferred debt costs. Average debt outstanding under the credit facility was \$132.7 million and \$128.4 million and weighted average interest rates were 3.5% and 3.2% for the six months ended June 30, 2011 and 2010, respectively. The increase in deferred debt costs is due to additional costs incurred related to the new credit facility that was put into effect in June 2010, as well as the additional costs incurred from the April 2011 amendment to the credit facility. See Note 5 of the accompanying consolidated financial statements for further discussion of CBIZ's debt arrangements.

Gain on sale of operations, net — The gain on sale of operations, net was \$2.7 million for the six months ended June 30, 2011 and is primarily due to the sale of the Company's individual wealth management business during the first quarter of 2011. The wealth management business was reported in the Employee Services practice group.

Other income (expense), net — Other income (expense), 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 contributed \$2.6 million of the \$3.0 million increase in other income, net, for the six months ended June 30, 2011 versus the comparable period in 2010. 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 operations. In addition, adjustments to contingent liabilities included a \$1.2 million expense during the six months ended June 30, 2011 compared to a \$0.7 million expense for the same period in 2010, thus comprising the remaining increase in other income, net.

Income tax expense — CBIZ recorded income tax expense from continuing operations of \$18.7 million and \$14.2 million for the six months ended June 30, 2011 and 2010, respectively. The effective tax rate for the six months ended June 30, 2011 was 42.8%, compared to an effective tax rate of 37.3% for the comparable period in 2010. The increase in the effective tax rate primarily relates to the reversal of estimated tax reserves in 2010 due to the expiration of certain statutes of limitation and non-tax deductible goodwill related to the sale of the individual wealth management business that was completed in the first quarter of 2011.

Earnings per share and cash earnings per share — Earnings per share from continuing operations were \$0.50 and \$0.39 per diluted share for the six months ended June 30, 2011 and 2010, respectively, and cash earnings per share were \$0.78 and \$0.63 per diluted share for the six months ended June 30, 2011 and 2010, respectively. The Company believes cash earnings and cash earnings per diluted share (non-GAAP measures) more clearly illustrate the impact of certain non-cash charges and credits to income from continuing operations and are a useful measure for the Company and its analysts. Management uses these performance measures to evaluate CBIZ's business, including ongoing performance and the allocation of resources. Cash earnings and cash 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 cash earnings from

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continuing operations and diluted earnings per share from continuing operations to cash earnings per diluted share for the six months ended June 30, 2011 and 2010.

CASH EARNINGS AND PER SHARE DATA
Reconciliation of Income from Continuing Operations to Cash Earnings from Continuing Operations

	SIX MONTHS ENDED JUNE 30,			
	2011	Per Share	2010	Per Share
		(In thousands, except per share data)		
Income from continuing operations	\$24,980	\$ 0.50	\$ 23,865	\$ 0.39
Selected non-cash charges:				
Depreciation and amortization	9,995	0.20	10,213	0.16
Non-cash interest on convertible note	1,953	0.04	2,098	0.03
Stock-based compensation	2,914	0.06	2,570	0.04
Adjustments to contingent earnouts	(1,152)	(0.02)	(715)	(0.01)
Non-cash restructuring charge	—	—	1,206	0.02
Non-cash charges	<u>\$13,710</u>	<u>\$ 0.28</u>	<u>\$ 15,372</u>	<u>\$ 0.24</u>
Cash earnings — continuing operations	<u>\$38,690</u>	<u>\$ 0.78</u>	<u>\$ 39,237</u>	<u>\$ 0.63</u>

Operating Practice Groups

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

Financial Services

	SIX MONTHS ENDED JUNE 30,			
	2011	2010	\$ Change	% Change
		(In thousands, except percentages)		
Revenue				
Same-unit	\$210,695	\$211,947	\$ (1,252)	(0.6)%
Acquired businesses	<u>7,666</u>	<u>—</u>	<u>7,666</u>	
Total revenue	\$218,361	\$211,947	\$ 6,414	3.0%
Operating expenses	<u>172,459</u>	<u>169,784</u>	<u>2,675</u>	1.6%
Gross margin	<u>\$ 45,902</u>	<u>\$ 42,163</u>	<u>\$ 3,739</u>	8.9%
Gross margin percent	<u>21.0%</u>	<u>19.9%</u>		

The decrease in same-unit revenue was primarily the result of a decrease in aggregate hours charged to clients. Same-unit aggregate hours charged to clients declined approximately 5% for the six months ended June 30, 2011 compared to the six months ended June 30, 2010, which was partially offset by a 2% increase in effective rates realized for services provided for the six months ended June 30, 2011 versus the comparable period in 2010. The decline in hours was due to decreased client demand, improved engagement efficiencies and to a lesser extent, work that was shifted to future quarters. The improvement in rates realized for services provided was due to a modest increase in rates as well as improved engagement efficiencies. Revenue from acquired businesses was a result of the acquisition of KRMT, which occurred on November 1, 2010.

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 operations

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and were approximately \$65.1 million and \$64.2 million for the six months ended June 30, 2011 and 2010, respectively, a majority of which is related to services rendered to privately-held clients. The increase in ASA fees is primarily the result of the acquisition of KRMT, which more than offset declines at several units. The largest components of operating expenses for the Financial Services group are personnel costs, occupancy costs, and travel and related costs which represented 88.7% and 89.2% of total operating expenses for the six months ended June 30, 2011 and 2010, respectively. Personnel costs increased \$1.1 million for the six months ended June 30, 2011 compared to the same period in 2010, and represented 79.1% and 79.7% of total operating expenses for the six months ended June 30, 2011 and 2010, respectively. The increase was attributable to \$4.6 million associated with the acquisition of KRMT which was offset by a reduction in same-unit personnel costs of \$3.5 million. The \$3.5 million reduction in same-unit personnel costs was associated mainly with staff reductions during the third quarter of 2010 at those units that experienced reduced client demand and, to a lesser extent, current year attrition. Personnel costs represented 62.4% and 63.8% of revenue for the six months ended June 30, 2011 and 2010, respectively. Occupancy costs are relatively fixed in nature and were \$11.7 million for both the six months ended June 30, 2011 and 2010, and were 5.4% and 5.5% of revenue for the six months ended June 30, 2011 and 2010, respectively. Travel and related costs were \$4.9 million for the six months ended June 30, 2011 compared to \$4.5 million in the same period in 2010, and were 2.3% and 2.1% of total revenue for the six months ended June 30, 2011 and 2010, respectively. The increase was due partially to increased client development efforts.

Gross margin percentage improved to 21.0% for the six months ended June 30, 2011 compared to 19.9% for the same period in 2010 and was due largely to lower same-unit personnel costs.

Employee Services

	SIX MONTHS ENDED JUNE 30,			
	2011	2010	\$ Change	% Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$86,597	\$87,197	\$ (600)	(0.7)%
Acquired businesses	971	—	971	
Divested operations	64	3,419	(3,355)	
Total revenue	\$87,632	\$90,616	\$ (2,984)	(3.3)%
Operating expenses	72,655	73,799	(1,144)	(1.6)%
Gross margin	\$14,977	\$16,817	\$ (1,840)	(10.9)%
Gross margin percent	17.1%	18.6%		

The decrease in same-unit revenue was primarily attributable to declines in the Company's employee benefits and property and casualty businesses, offset in part by increases in the retirement plan advisory, specialty life insurance and human capital advisory businesses. The Company's employee benefits decreased approximately \$2.5 million due to continued high levels of client workforce downsizing as well as client attrition, and the property and casualty revenues declined \$1.6 million due to soft market conditions in pricing and lower volume-based carrier bonus payments. Partially offsetting these decreases was an increase of approximately \$0.8 million in the retirement advisory business due to higher asset values resulting largely from favorable market performance, an increase in the specialty life insurance business of \$1.5 million due to an increase in the number of policy placements, and an increase in human capital advisory and payroll revenues of approximately \$1.2 million due to an increase in demand for recruiting and pricing for payroll-related services. The growth in revenue from acquired businesses was provided by Benexx, a retirement plan business in Maryland that was acquired in the third quarter of 2010. The decline in revenue from divestitures was due to the sale of the Wealth Management Advisory Business in the first quarter of 2011.

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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 83.4% of total operating expenses for the six months ended June 30, 2011 and 2010. Excluding personnel costs during the first six months of 2010 related to the divested wealth management businesses of \$2.8 million, personnel costs increased approximately \$0.2 million, primarily as a result of additional commissions paid to third party brokers related to the increase in specialty life insurance sales. Personnel costs represented 76.7% and 76.6% of revenue for the six months ended June 30, 2011 and 2010, respectively. Occupancy costs are relatively fixed in nature, and excluding the costs associated with the divested wealth management businesses of \$0.2 million, were \$4.8 million for the six months ended June 30, 2011 and 2010.

Gross margin percent was impacted by three factors. The decline in volume-based carrier bonus payments has a direct impact on gross margin, since there are no corresponding expenses associated with these revenues. In addition, the decrease in operating revenues in both the employee benefits and property casualty businesses played a role in the margin decline, despite a corresponding savings in variable sales commissions. These were offset, in part, by an increase from retirement advisory and human capital advisory revenues. Asset-based revenues do not have related direct costs, and human capital advisory revenues have a more fixed cost structure; therefore, growth in those revenues has a favorable impact on gross margin.

MMP

	SIX MONTHS ENDED JUNE 30,			
	2011	2010	\$ Change	% Change
Same-unit revenue	\$71,065	\$73,336	\$ (2,271)	(3.1)%
Operating expenses	63,533	67,436	(3,903)	(5.8)%
Gross margin	<u>\$ 7,532</u>	<u>\$ 5,900</u>	<u>\$ 1,632</u>	27.7%
Gross margin percent	<u>10.6%</u>	<u>8.0%</u>		

Same-unit revenue decreased 3.1% for the six months ended June 30, 2011 versus the comparable period in 2010. Approximately 66% of the decrease is attributable to client terminations, net of new business sold, with the remaining 34% attributable to decreased revenues from existing clients. The decline in revenue from client terminations was attributable to many reasons including: physician groups losing their hospital contracts, clients moving their billing function in-house, changes in group ownership, hospital consolidations and increased competitive pressures. The Company does not believe that this loss of clients represents a trend that will continue through the remainder of 2011, however, same store revenues are expected to continue to be less than 2010 reported revenues due to continued pressure on pricing and reimbursement rates. The decline in revenue from existing clients can be attributed to several factors including decreases in pricing and reimbursement rates and a change in the mix of procedures resulting in a decrease in the average revenue per procedure.

The largest components of operating expenses for MMP are personnel costs, professional service fees for off-shore and electronic claims processing, occupancy costs and office expenses (primarily postage related to the Company's statement mailing services). These expenses represented 86.4% and 86.8% of total operating expenses for the first six months of 2011 and 2010, respectively. Due to a reduction in headcount, personnel costs decreased \$2.9 million for the six months ended June 30, 2011, and decreased as a percentage of revenue to 56.7% compared to 58.9% for the comparable period in 2010. The reduction in headcount and related personnel costs in billing operations is due to the expanded utilization of off-shore processing, utilization of new technologies, as well as a response to the decline in revenue. Office expenses decreased \$0.5 million for the six months ended June 30, 2011, and decreased as a percentage of revenue to 7.7% compared to 8.1% for the six months ended June 30, 2010 as a result of a decrease in statement mailings. Facilities costs decreased \$0.3 million for the first six months of 2011,

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and decreased slightly as a percentage of revenue to 6.8% versus 7.0% in the comparable period in 2010 due to the consolidation of certain offices.

The increase in gross margin is the result of the reduction in headcount and related decrease in personnel costs as described above.

National Practices

	SIX MONTHS ENDED JUNE 30,			
	2011	2010	\$ Change	% Change
Same-unit revenue	\$ 15,943	\$ 13,556	\$ 2,387	17.6%
Operating expenses	13,451	13,072	379	2.9%
Gross margin	<u>\$ 2,492</u>	<u>\$ 484</u>	<u>\$ 2,008</u>	414.9%
Gross margin percent	<u>15.6%</u>	<u>3.6%</u>		

The increase in revenue was attributable to an increase of \$1.6 million in CBIZ's mergers and acquisitions business, \$0.6 million from the healthcare consulting business and \$0.2 million in services provided under a contractual relationship with Edward Jones, CBIZ's largest client. The increase in the mergers and acquisitions business was a result of earning success fees for completing two transactions during the six months ended June 30, 2011, whereas no transactions were completed during the same period in 2010. The increase in the healthcare consulting business was primarily due to an increase in coding and auditing services performed in the clinical business and an increase in Medicaid eligibility services provided to clients. The increase in the Edward Jones revenue was primarily the result of an increase in required technology support.

The largest components of operating expenses for the National Practices group are personnel costs, occupancy costs, and travel and related costs representing 95.5% and 94.5% of total operating expenses for the six months ended June 30, 2011 and 2010, respectively. Personnel costs increased \$0.5 million for the six months ended June 30, 2011 compared to the same period in 2010, but decreased as a percentage of revenue to 77.9% of revenue for the six months ended June 30, 2011 compared to 88.3% of revenue for the same period last year. The increase in personnel costs is due primarily to additional incentive compensation to certain individuals in the mergers and acquisitions business resulting from completing two transactions during the six months ended June 30, 2011. Occupancy costs and travel and related costs were relatively flat for the six months ended June 30, 2011 and 2010.

The increase in gross margin is primarily the result of an increase in revenue combined with a modest increase in operating expenses, as described above, for the six months ended June 30, 2011 compared with the same period last year.

Financial Condition

Total assets were \$781.8 million at June 30, 2011, an increase of \$25.5 million versus December 31, 2010. Current assets of \$296.0 million exceeded current liabilities of \$195.1 million by \$100.9 million.

Cash and cash equivalents decreased by \$0.5 million to \$0.2 million at June 30, 2011 from December 31, 2010. Restricted cash was \$19.9 million at June 30, 2011, a decrease of \$0.3 million from December 31, 2010. Restricted cash represents those funds held in connection with CBIZ's Financial Industry Regulatory Authority ("FINRA") regulated businesses 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.

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Accounts receivable, net, were \$155.7 million at June 30, 2011, an increase of \$17.6 million from December 31, 2010, and days sales outstanding (“DSO”) from continuing operations was 80 days, 72 days and 79 days at June 30, 2011, December 31, 2010 and June 30, 2010, respectively. DSO represents accounts receivable (before the allowance for doubtful accounts) 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.

Deferred income taxes — current increased by \$5.6 million to \$9.8 million at June 30, 2011 compared to \$4.2 million at December 31, 2010. The increase in the net deferred current asset was primarily due to the transfer of certain deferred tax liabilities from deferred income taxes — current to income taxes payable — current as a result of the redemption of the Company’s 2006 Notes during the three months ended June 30, 2011.

Other current assets were \$10.4 million and \$12.0 million at June 30, 2011 and December 31, 2010, 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.

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, 2010.

Property and equipment, net, decreased by \$2.4 million to \$21.5 million at June 30, 2011 from \$23.9 million at December 31, 2010. The decrease is primarily the result of depreciation and amortization expense of \$3.4 million, partially offset by capital expenditures of \$0.9 million. CBIZ’s property and equipment is primarily comprised of software, hardware, furniture and leasehold improvements.

Goodwill and other intangible assets, net, decreased by \$9.1 million at June 30, 2011 from December 31, 2010. This decrease for the six months ended June 30, 2011 is comprised of \$6.6 million of amortization expense and \$2.6 million of divested goodwill and intangible assets, partially offset by \$0.1 million in additions to intangible assets resulting from contingent purchase price adjustments.

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 \$35.5 million and \$33.4 million at June 30, 2011 and December 31, 2010, respectively. The increase in assets of the deferred compensation plan of \$2.1 million consisted of net participant contributions of \$0.4 million and an increase in the fair value of the investments of \$1.7 million for the six months ended June 30, 2011. The plan is described in further detail in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

The accounts payable balances of \$28.8 million and \$30.8 million at June 30, 2011 and December 31, 2010, respectively, reflect amounts due to suppliers and vendors; balances fluctuate during the year based on the timing of cash payments. Accrued personnel costs were \$30.9 million and \$33.0 million at June 30, 2011 and December 31, 2010, 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 \$10.7 million to \$0.3 million at June 30, 2011 from \$11.0 million at December 31, 2010. Notes payable balances and activity are primarily attributable to contingent proceeds earned by previously acquired businesses. During the six months ended June 30, 2011, payments on notes attributable to contingent proceeds relating to previously acquired businesses were approximately \$11.0 million. These payments were partially offset by additions to notes payable of \$0.3 million resulting from purchase price adjustments relating to prior acquisitions and transfers of long-term notes to short-term notes during the period.

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Other liabilities (current and non-current) decreased by \$6.8 million at June 30, 2011 from December 31, 2010. The decrease is primarily attributable to recognition of \$4.9 million of deferred gain on sale of the Company's individual wealth management business that was effective January 1, 2011, payments of \$0.3 million and adjustments of \$1.2 million to the estimated contingent purchase price liabilities related to previously acquired businesses, and a decrease of \$0.6 million in accrued interest payable on the Company's convertible notes, partially offset by an increase of \$0.3 million related to the self-funded health insurance plan.

Income taxes payable — current was \$7.2 million at June 30, 2011 versus income taxes refundable of \$3.7 million at December 31, 2010. The income taxes refundable balance at December 31, 2010 occurred as CBIZ made estimated tax payments that exceeded the tax liabilities CBIZ expected to incur with its 2010 income tax filings. Income taxes payable — current at June 30, 2011 primarily represents the provision for current income taxes less estimated tax payments and tax benefits related to the exercise of stock options. Income taxes payable — non-current at June 30, 2011 and December 31, 2010 was \$5.5 million and \$5.3 million, respectively, and represents the accrual for uncertain tax positions.

CBIZ's convertible notes are carried at face value less unamortized discount. The \$37.3 million decrease in the carrying value of the current and non-current convertible notes at June 30, 2011 compared to December 31, 2010 represents the repurchase of \$39.3 million of the 2006 Notes, partially offset by \$0.8 million and \$1.2 million amortization of the discount on the 2006 Notes and 2010 Convertible Senior Subordinated Notes ("2010 Notes"), respectively, which is recognized as non-cash interest expense in the consolidated statements of operations. 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 increased \$30.1 million to \$149.0 million at June 30, 2011 from \$118.9 million at December 31, 2010. This increase was primarily attributable to the repurchase of \$39.3 million of the 2006 convertible notes.

Stockholders' equity increased by \$27.9 million to \$257.6 million at June 30, 2011 from \$229.7 million at December 31, 2010. The increase in stockholders' equity was primarily attributable to net income of \$24.5 million, CBIZ's stock award programs which contributed \$3.1 million, and adjustments of \$0.3 million to accumulated other comprehensive loss to adjust the fair value of CBIZ's investments in ARS and corporate bonds.

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 which has a letter of credit sub-facility. On April 11, 2011, the credit facility was amended to extend the maturity date one year to June 2015, reduce interest on outstanding balances, reduce commitment fees on the unused amount, and adjust the leverage ratio limits to provide CBIZ with more flexibility. At June 30, 2011, CBIZ had \$149.0 million outstanding under its credit facility and had letters of credit and performance guarantees totaling \$5.2 million. Available funds under the credit facility, based on the terms of the commitment, were approximately \$64.8 million at June 30, 2011. 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 June 30, 2011.

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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.

Sources and Uses of Cash

The following table summarizes CBIZ's cash flows from operating, investing and financing activities for the six months ended June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Total cash provided by (used in):		
Operating activities	\$ 22,953	\$ 25,694
Investing activities	(29,673)	(2,514)
Financing activities	6,207	(30,218)
Decrease in cash and cash equivalents	<u>\$ (513)</u>	<u>\$ (7,038)</u>

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 six months ended June 30, 2011, net cash provided by operating activities was \$23.0 million and primarily consisted of net income of \$24.5 million and non-cash adjustments to net income of \$12.6 million. Partially offsetting these sources of cash were changes in working capital items of \$11.3 million and a net gain on the sale of operations and discontinued operations transactions of \$2.2 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 revenues and days sales outstanding, partially offset by an increase in income taxes payable resulting from the timing of payments. Cash used by discontinued operations was \$0.6 million.

Net cash provided by operating activities for the six months ended June 30, 2010 was \$25.7 million and primarily consisted of net income of \$21.4 million, non-cash adjustments to net income of \$15.7 million, and a net loss on the sale of operations and discontinued operations transactions of \$2.1 million. Partially offsetting these sources of cash were changes in working capital items of \$11.7 million. Net changes in working capital were driven by an increase in accounts receivable due to an increase in revenues and days sales outstanding, partially offset by an increase in accounts payable due to active vendor management and an increase in income taxes payable resulting from the timing of payments. Cash used by discontinued operations was \$1.8 million.

Investing Activities

CBIZ's investing activities typically result in a net use of cash, and generally consist of: payments towards business acquisitions, contingent payments associated with prior acquisitions of businesses and client lists, activities related to funds held for clients, payment on capital expenditures and proceeds received from sales of divestitures and discontinued operations. Capital expenditures primarily consisted of investments in technology, leasehold improvements and purchases of furniture and equipment.

Net cash flows used in investing activities were \$29.7 million and \$2.5 million for the six months ended June 30, 2011 and 2010, respectively. Investing uses of cash during the six months ended June 30, 2011 primarily consisted of \$10.9 million of net cash used for contingent payments on prior acquisitions, net activity related to funds held for clients of \$18.6 million, and capital expenditures of \$0.9 million. These

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uses of cash were partially offset by \$0.7 million of proceeds from the sale of divested and discontinued operations.

During the six months ended June 30, 2010, investing uses of cash consisted of \$29.0 million of net cash used towards business acquisitions and for contingent payments on prior acquisitions and \$1.4 million for capital expenditures. Substantially offsetting these uses of cash were \$26.8 million of net activity related to funds held for clients and \$1.1 million of proceeds from the sale of divested and discontinued operations.

Financing Activities

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

Net cash provided by financing activities during the six months ended June 30, 2011 was \$6.2 million compared to net cash used by financing activities of \$30.2 million for the comparable period in 2010. Financing sources of cash included \$30.1 million in net proceeds on the credit facility, net change of \$16.2 million in client fund obligations as a result of timing of cash received and payments made, and \$0.9 million in proceeds from the exercise of stock options (including tax benefits). These sources of cash were substantially offset by uses of cash which included \$39.3 million used to repay the 2006 Notes, \$0.6 million used to repurchase shares of CBIZ common stock, \$0.6 million in cash used to pay for debt issuance costs related to the amendment of the credit facility, \$0.3 million in payments for contingent consideration included as part of the initial measurement of prior business acquisitions, and payment on notes payable of \$0.2 million.

Net cash used in financing activities during the six months ended June 30, 2010 was \$30.2 million which consisted of the net change of \$26.8 million in client fund obligations as a result of timing of cash received and payments made, \$7.6 million used to repurchase shares of CBIZ common stock and \$1.9 million used to pay debt issuance costs related to the new credit facility. These uses were offset by sources of cash which included \$5.0 million in net proceeds on the credit facility and \$1.2 million in proceeds from the exercise of stock options (including tax benefits).

Obligations and Commitments

CBIZ's aggregate amount of future obligations at June 30, 2011 for the next five years and thereafter is set forth below (in thousands):

	<u>Total</u>	<u>2011(1)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Thereafter</u>
Convertible notes (2)	\$130,750	\$ —	\$ —	\$ —	\$ —	\$130,000	\$ 750
Interest on convertible notes	28,533	3,181	6,338	6,338	6,338	6,338	—
Credit facility (3)	149,000	—	—	—	—	149,000	—
Income taxes payable (4)	7,238	7,238	—	—	—	—	—
Notes payable	252	—	252	—	—	—	—
Contingent purchase price liabilities(5)	15,866	2,255	7,207	6,404	—	—	—
Contingent purchase price obligations(6)	24,849	4,098	20,751	—	—	—	—
Restructuring lease obligations (7)	9,433	1,126	2,181	1,592	1,201	1,239	2,094
Non-cancelable operating lease obligations (7)	154,188	17,441	32,477	27,550	20,463	17,805	38,452
Letters of credit in lieu of cash security deposits	2,816	—	—	45	250	—	2,521
Performance guarantees for non-consolidated affiliates	2,407	—	2,407	—	—	—	—
License bonds and other letters of credit	1,499	504	983	11	1	—	—
Total	<u>\$526,831</u>	<u>\$35,843</u>	<u>\$72,596</u>	<u>\$41,940</u>	<u>\$28,253</u>	<u>\$304,382</u>	<u>\$ 43,817</u>

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- (1) Represents contractual obligations from July 1, 2011 to December 31, 2011.
 - (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 can be redeemed by the Company anytime after June 6, 2011.
 - (3) Interest on the credit facility is not included as the amount is not determinable due to the revolving nature of the credit facility and the variability of the related interest rate.
 - (4) Does not reflect \$5.0 million of unrecognized tax benefits, which the Company has accrued for uncertain tax positions, as CBIZ is unable to determine a reasonably reliable estimate of the timing of the future payments.
 - (5) Represents contingent earnout liability that is expected to be paid over the next three years to businesses CBIZ acquired on or after January 1, 2009.
 - (6) Represents an estimate of potential earnout payments to be made over the next two years to those businesses CBIZ acquired prior to January 1, 2009.
 - (7) Excludes cash expected to be received under subleases.

Off-Balance Sheet Arrangements

CBIZ maintains administrative service agreements with independent CPA firms (as described more fully in the Annual Report on Form 10-K for the year ended December 31, 2010), which qualify as variable interest entities. The accompanying consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact 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 \$2.4 million and \$3.4 million at June 30, 2011 and December 31, 2010, respectively. CBIZ has recognized a liability for the fair value of the obligations undertaken in issuing these guarantees. The liability is recorded as other current liabilities in the accompanying consolidated balance sheets. CBIZ does not expect it will be required to make payments under these guarantees.

CBIZ provides letters of credit to landlords (lessors) of its leased premises in lieu of cash security deposits, which totaled \$2.8 million and \$3.0 million at June 30, 2011 and December 31, 2010, respectively. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding at June 30, 2011 and December 31, 2010 totaled \$1.5 million.

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 are generally conditioned upon the other party making a claim. Such claims are typically subject to challenge by CBIZ and to dispute resolution procedures specified in the particular contract. Further, CBIZ's obligations under these agreements may be limited in terms of time and/or amount and, in some instances, CBIZ may have recourse against third parties for certain payments made by CBIZ. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of CBIZ's obligations and the unique facts of each particular agreement. Historically, CBIZ has not made any payments under these agreements that have been material individually or in the aggregate. As of June 30, 2011, CBIZ was not aware of any material obligations arising under indemnification agreements that would require payment.

Interest Rate Risk Management

CBIZ has periodically used interest rate swaps to manage interest rate risk exposure. The interest rate swaps effectively mitigate CBIZ's exposure to interest rate risk, primarily through converting portions of the floating rate debt under the credit facility to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. At June 30, 2011, CBIZ had an interest rate swap with a notional amount of \$40 million, of which \$25.0 million will expire in June 2014 and the remaining \$15.0 million will expire in June 2015. CBIZ had interest rate swaps with a notional amount of \$20 million which expired in January 2011. Management will continue to evaluate the potential use of

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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 and may not be converted before July 31, 2015. CBIZ believes the fixed nature of these borrowings mitigate its interest rate risk.

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

Critical Accounting Policies

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

Valuation of Goodwill

Goodwill impairment testing between annual testing dates may be required if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. A further description of assumptions used in the Company's annual impairment testing are provided in CBIZ's Annual Report on Form 10-K for the year ended December 31, 2010. There was no goodwill impairment during the year ended December 31, 2010 or during the six months ended June 30, 2011.

CBIZ reviewed the significant assumptions that it used in its goodwill impairment analysis to determine if it was more likely than not that the fair value of each reporting unit was less than its carrying value. The analyses focused on management's current expectations of future cash flows, as well as current market conditions that impact various economic indicators that are utilized in assessing fair value. Based on these analyses and the lack of any other evidence or significant event, it was determined that the Company did not have to perform a goodwill assessment during the six months ended June 30, 2011.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05 ("ASU 2011-05") "Comprehensive Income (Topic 220): Presentation of Comprehensive Income", which states that comprehensive income should be presented in either one or two consecutive financial statements. Companies will have the option to either present other comprehensive income on the same statement as net income, or as a separate statement that immediately follows the statement of net income. ASU 2011-05 is effective for the first reporting period after December 15, 2011, and should be applied retrospectively. The adoption of ASU 2011-05 will result in CBIZ presenting other comprehensive income on the consolidated statements of operations.

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04") "Fair Value Measurement (Topic 820) Amendments to Achieve Common fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards." ASU 2011-04 provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S.

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GAAP and International Financial Reporting Standards. ASU 2011-04 does not extend the use of fair value, but rather provides additional disclosure guidance about the application of fair value in those areas where fair value is already required or permitted, especially for Level 3 fair value measurements. ASU 2011-04 is effective for the first reporting period after December 15, 2011. The amendments of this ASU will be applied prospectively, and early adoption is not permitted. The Company is currently evaluating the impact of adopting ASU 2011-04, but currently believes there will be no significant impact on its consolidated financial statements.

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

Forward-Looking Statements

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

CBIZ's floating rate debt under its credit facility exposes the Company to interest rate risk. Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. A change in the Federal Funds Rate, or the reference rate set by Bank of America, N.A., would affect the rate at which CBIZ could borrow funds under its credit facility. CBIZ's balance outstanding under its credit facility at June 30, 2011 was \$149.0 million. If market rates were to increase or decrease 100 basis points from the levels at June 30, 2011, interest expense would increase or decrease approximately \$1.1 million annually.

CBIZ does not engage in trading market risk sensitive instruments. CBIZ uses interest rate swaps to manage interest rate risk exposure. CBIZ's interest rate swaps effectively modify the Company's exposure to interest rate risk, primarily through converting portions of floating rate debt under the credit facility, to a fixed rate basis. The interest rate swap agreements involve the receipt or payment of floating rate interest amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts. At June 30, 2011, CBIZ had a \$40 million notional amount of interest rate swap outstanding, of which \$25.0 million will expire in June 2014 and the remaining \$15.0 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, including auction rate securities and corporate bonds. In accordance with the Company's investment policy, all investments carry an investment grade rating. At each respective balance sheet date, these investments are adjusted to fair value with fair value adjustments being recorded to other comprehensive income or loss for the respective period. If an investment is deemed to be other-than-temporarily impaired due to credit loss, then the adjustment is recorded to "Other income (expense), net" on the consolidated statements of operations. See Notes 7 and 8 to the accompanying consolidated financial statements for further discussion regarding these investments and the related fair value assessments.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Limitations on the Effectiveness of Controls

Management, including the Company's CEO and CFO, does not expect that its Disclosure Controls or its internal control over financial reporting ("Internal Controls") will prevent all error and all fraud. Although CBIZ's Disclosure Controls are designed to provide reasonable assurance of achieving their objective, a control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all

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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 June 30, 2011 that has materially affected, or is reasonably likely to materially affect, CBIZ's Internal Controls.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

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

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

Item 1A. Risk Factors

In conjunction with the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under “Risk Factors” described in Part I, Item 1A in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. 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

(c) Periodically, CBIZ's Board of Directors authorizes a Share Repurchase Plan which allows the Company to purchase shares of its common stock in the open market or in a privately negotiated transaction according to SEC rules. On February 10, 2011 and February 11, 2010, CBIZ's Board of Directors authorized Share Repurchase Plans, each of which authorized the purchase of up to 5.0 million shares of CBIZ common stock. Each Share Repurchase Plan is effective beginning April 1 of the respective plan year, and each expires one year from the respective effective date. The repurchase plans do not obligate CBIZ to acquire any specific number of shares and may be suspended at any time. In addition, pursuant to an agreement (the "Westbury Agreement") entered into on September 14, 2010 by CBIZ with its largest shareholder, Westbury (Bermuda) Ltd. ("Westbury"), a company organized by CBIZ founder 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, which constitutes the remaining shares of CBIZ's common stock held by Westbury. This option expires on September 30, 2013. During the three months ended June 30, 2011, CBIZ did not repurchase any shares of its common stock under either the Share Repurchase Plan or the Westbury Agreement.

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

Item 6. Exhibits

- 10.1 * CBIZ, Inc. 2002 Amended and Restated Stock Incentive Plan (Amended and Restated as of May 12, 2011).
- 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.
- 101.1 The following materials from CBIZ, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010, (ii) Consolidated Balance Sheets at June 30, 2011 and December 31, 2010, (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010, and (iv) Notes to the Consolidated Financial Statements.

* Indicates documents filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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: August 9, 2011

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

CBIZ, INC. 2002 AMENDED AND RESTATED STOCK INCENTIVE PLAN
(Amended and Restated as of May 12, 2011)

Introduction

The purpose of the Plan is to give the Company a competitive advantage in attracting, retaining and motivating officers, employees, and/or directors and to provide the Company and its Subsidiaries and Affiliates with a stock plan providing incentives directly linked to the profitability of the Company's businesses and increases in Company shareholder value. This Plan is an amendment and restatement, effective as of the Effective Date, of the CBIZ, Inc. Amended and Restated 1996 Employee Stock Option Plan (the "Prior Plan"). All grants or awards that were made under the Prior Plan prior to the Effective Date shall continue to be governed by the terms of the Prior Plan, except to the extent specific provisions of this Plan shall be expressly made applicable.

SECTION 1. Definitions

For purposes of the Plan, the following terms are defined as set forth below:

"*Affiliate*" means a corporation or other entity controlled by, controlling or under common control with the Company.

"*Award*" means a Stock Option, Stock Appreciation Right, Performance Award, or other stock-based award granted under the Plan.

"*Award Cycle*" means the one or more periods of time, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for purposes of determining an awardee's right, and the payment of, a Performance Award.

"*Board*" means the Board of Directors of the Company.

"*Cause*" means, unless otherwise provided by the Committee, (1) "Cause" as defined in any Individual Agreement to which the awardee is a party, or (2) if there is no such Individual Agreement or if it does not define Cause: (A) conviction of the awardee for committing a felony under federal law or the law of the state in which such action occurred, (B) dishonesty in the course of fulfilling the awardee's employment duties, (C) willful and deliberate failure on the part of the awardee to perform his or her employment duties in any material respect, or (D) prior to a Change in Control, such other events as shall be determined by the Committee. The Committee shall, unless otherwise provided in an Individual Agreement with the awardee, have the sole discretion to determine whether "Cause" exists, and its determination shall be final.

"*Change in Control*" and "*Change in Control Price*" have the meanings set forth in Sections 10(b) and (c), respectively.

"*Code*" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto. Reference in the Plan to the Code shall be deemed to include any regulations or other interpretive guidance under such section, and any amendments or successor provisions to such section, regulations or guidance.

"*Commission*" means the Securities and Exchange Commission or any successor agency.

"*Committee*" means the Committee referred to in Section 2.

"*Common Stock*" means common stock, par value \$0.01 per share, of the Company.

"*Company*" means CBIZ, Inc., a Delaware corporation, and any successor thereto.

"*Covered Employee*" means an awardee designated prior to the grant of a Performance Award by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which the Performance Award is expected to be taxable to such awardee.

“*Date of Grant*” means the date on which the Committee adopts a resolution, or takes other appropriate action, expressly granting an Award to a Participant that specifies the key terms and conditions of the Award or, if a later date is set forth in such resolution, then such date as is set forth in such resolution.

“*Disability*” means, unless otherwise provided by the Committee, “permanent and total disability” within the meaning of Code Section 22(e)(3).

“*Early Retirement*” means retirement from active employment with the Company, a Subsidiary or Affiliate pursuant to the early retirement provisions of the applicable pension plan of such employer.

“*EBITDA*” means earnings before interest expense, income taxes, depreciation and amortization and gain or loss on sale of operations.

“*Effective Date*” means May 17, 2002.

“*Eligible Awardees*” means officers, employees, directors (whether or not officers or employees), independent contractors and consultants of the Company or any of its Subsidiaries or Affiliates, and prospective employees (subject to applicable rules relating to grants of Incentive Stock Options) who have accepted offers of employment from the Company or its Subsidiaries or Affiliates, who are or will be responsible for or contribute to the management, growth or profitability of the business of the Company, or its Subsidiaries or Affiliates. Eligible independent contractors or consultants described above may be individuals or entities, including without limitation partnerships or corporations.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

“*Fair Market Value*” means, except as otherwise provided by the Committee, as of any given date, the closing price on any national exchange listing the Company’s Common Stock on the Date of Grant, or if the shares were not traded on such national exchange on such Date of Grant, then on the next preceding date on which such shares of Common Stock were traded, all as reported by such source as the Committee may select.

“*Incentive Stock Option*” means any Stock Option that is designated by the Committee as an “incentive stock option” within the meaning of Section 422 of the Code and otherwise meets the requirements set forth in the Plan.

“*Individual Agreement*” means an employment or similar agreement between an awardee and the Company or one of its Subsidiaries or Affiliates.

“*Nonqualified Stock Option*” means any Stock Option that is not an Incentive Stock Option.

“*Normal Retirement*” means retirement from active employment with the Company, a Subsidiary or Affiliate at or after age 65.

“*Qualified Performance-Based Award*” means a Performance Award designated as such by the Committee at the time of award, based upon a determination that (i) the awardee is or may be a Covered Employee in the year in which the Company would expect to be able to claim a federal income tax deduction with respect to such Performance Award and (ii) the Committee intends that such Award qualify for the Section 162(m) Exemption.

“*Performance Criteria*” means the criterion or criteria that the Committee shall select for purposes of establishing the Performance Goal(s) for an Award Cycle with respect to any Performance Award under the Plan and shall consist of one or more of the following measures: net earnings or net income (before or after taxes); basic or diluted earnings per share (before or after taxes, from continuing operations or otherwise); net revenue or net revenue growth; gross profit or gross profit growth; operating profit (before or after taxes); return measures (including, but not limited to, return on assets, capital, invested capital, equity or sales); cash flow (including, but not limited to, operating cash flow, free cash flow and cash flow return on capital); earnings before or after taxes, interest, depreciation, and amortization; gross or operating margins; productivity ratios; share price (including, but not limited to, growth measures and total stockholder return); expense targets; margins; operating efficiency; objective measures of customer satisfaction; working capital targets; measures of economic value added; inventory control; enterprise value; sales; debt levels and net debt; combined ratio; timely launch of new facilities; client retention; employee retention; performance relative to budget; unit volume, safety performance targets; objective measures of personal targets, goals or completion of projects; any of the foregoing on a non-GAAP adjusted basis; or any combination of the foregoing. Any one or more of the Performance Criteria may be used on an absolute or relative basis to measure the performance of the Company and/or one or more Affiliates as a whole or any business unit(s) of the Company and/or one or more Affiliates or any combination thereof, as the Committee may deem appropriate.

“*Performance Formula*” means, for an Award Cycle, the one or more objective formulae applied against the relevant Performance Goal to determine, with regard to the Performance Award of a particular awardee, whether all, some portion but less than all, or none of the Performance Award has been earned for the Award Cycle.

“*Performance Goals*” means the performance goals established by the Committee in connection with the grant of a Performance Award under Section 7 or other stock-based Awards under Section 9. In the case of Qualified Performance-Based Awards, (i) such goals shall be based on the attainment of specified levels of one or more of the Performance Criteria, and (ii) such Performance Goals shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations.

“*Performance Award*” means an Award granted under Section 7.

“*Plan*” means the CBIZ, Inc. 2002 Amended and Restated Stock Incentive Plan, as set forth herein and as amended from time to time.

“*Prior Plan*” means the CBIZ, Inc. Amended and Restated 1996 Employee Stock Option Plan, as in effect immediately prior to the Effective Date.

“*Retirement*” means Normal or Early Retirement.

“*Rule 16b-3*” means Rule 16b-3, as promulgated by the Commission under Section 16(b) of the Exchange Act, as amended from time to time.

“*Section 162(m) Exemption*” means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code and the regulations promulgated thereunder.

“*Stock Appreciation Right*” means an Award granted under Section 6.

“*Stock Option*” means an Award that is granted under Section 5 and that consists of the right to purchase shares of Common Stock.

“*Subsidiary*” means any corporation, partnership, joint venture or other entity during any period in which at least a 50% voting or profits interest is owned, directly or indirectly, by the Company or any successor to the Company.

“*Termination of Employment*” means the termination of the awardee’s employment with, or performance of services for, the Company and any of its Subsidiaries or Affiliates. An awardee employed by, or performing services for, a Subsidiary or an Affiliate shall also be deemed to incur a Termination of Employment if the Subsidiary or Affiliate ceases to be such a Subsidiary or an Affiliate, as the case may be, and the awardee does not immediately thereafter become an employee of, or service provider for, the Company or another Subsidiary or Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Subsidiaries and Affiliates shall not be considered Terminations of Employment.

In addition, certain other terms used herein have definitions given to them in the first place in which they are used.

SECTION 2. Administration

The Plan shall be administered by the Compensation Committee or such other committee of the Board as the Board may from time to time designate (the “Committee”), which shall be composed of not less than three directors, and shall be appointed by and serve at the pleasure of the Board. All members of the Committee shall qualify as “outside directors” for purposes of the Section 162(m) Exemption and as “Non-Employee Directors,” for purposes of Rule 16b-3.

The Committee shall have plenary authority to grant Awards pursuant to the terms of the Plan to Eligible Awardees.

Among other things, the Committee shall have the authority, subject to the terms of the Plan:

(a) To select the Eligible Awardees to whom Awards may from time to time be granted;

(b) To determine whether and to what extent Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, and Performance Awards or any combination thereof are to be granted hereunder;

(c) To determine the number of shares of Common Stock to be covered by an Award granted hereunder;

(d) To determine the terms and conditions of any Award granted hereunder (including, but not limited to, the exercise price (subject to Section 5(a)), any vesting condition, restriction or limitation (which may be related to the performance of the awardee, the Company or any Subsidiary or Affiliate) and any vesting acceleration regarding any Award and the shares of Common Stock relating thereto, based on such factors as the Committee shall determine;

(e) To modify, amend or adjust the terms and conditions of any Award, at any time or from time to time, including but not limited to Performance Goals; *provided, however*, that the Committee may not adjust upwards the amount payable with respect to a Qualified Performance-Based Award or waive or alter the Performance Goals associated therewith or otherwise exercise discretion that is inconsistent with the requirements of the Section 162(m) Exemption in the case of Awards that are intended to rely on such exemption; provided further, however, that, notwithstanding any other provisions of the Plan, stockholder approval shall be required for any action by the Committee (other than action taken pursuant to Section 3(c)) to (i) reduce the exercise price of an outstanding Stock Option or Stock Appreciation Right; (ii) cancel an outstanding Stock Option or Stock Appreciation Right in exchange for cash or any other Award; (iii) grant a new Stock Option or Stock Appreciation Right in connection with the cancellation or termination (other than through exercise or expiration of its term) of a prior granted Stock Option or Stock Appreciation Right, where the exercise price of such newly granted Stock Option or Stock Appreciation Right is less than the exercise price of such prior granted Stock Option or Stock Appreciation Right; or (iv) take any action that is considered a “repricing” for purposes of the stockholder approval rules of the applicable securities exchange or inter-dealer quotation system on which the Common Stock is listed or quoted.

(f) To determine to what extent and under what circumstances the issuance of Common Stock and the payment of other amounts payable with respect to an Award shall be deferred; and

(g) To determine under what circumstances an Award may be settled in cash or Common Stock under Sections 5(l) and 6(b)(ii).

The Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable, to interpret, administer, reconcile any inconsistency, correct any defect or supply any omission in the Plan and any instrument or agreement relating to an Award under the Plan and to otherwise supervise the administration of the Plan.

The Committee may act only by a majority of its members then in office. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may delegate administrative responsibilities with respect to the Plan. Any determination made by the Committee with respect to any Award shall be made in the sole discretion of the Committee at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Plan awardees.

Any authority granted to the Committee may also be exercised by the full Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Exchange Act or cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control.

SECTION 3. Common Stock Subject to Plan

(a) *Maximum Number of Shares.* The maximum number of shares of Common Stock that may be issued to awardees and their beneficiaries under the Plan shall be 15,000,000, which number shall include those shares that are available for grants under the Prior Plan. No Eligible Awardee may be granted in any fiscal year of the Company Stock Options, Stock Appreciation Rights or any stock-based Awards under Section 9 hereof (excluding dividend equivalents), or any combination of such Awards, covering in excess of 1,000,000 shares of Common Stock. Shares subject to an Award under the Plan may be authorized and unissued shares or may be treasury shares. After May 12, 2011, no more than 3,200,000 shares can be granted in connection with Awards under the plan other than Stock Options and Stock Appreciation Rights.

(b) *Certain Counting Rules.* If any Award is forfeited, or if it terminates, expires, lapses without being exercised or is cashed out pursuant to Section 5(l) hereof or otherwise, or an Award is exercised for, or is settled with, cash, any shares of Common Stock subject to such Awards shall again be available for issuance in connection with Awards under the Plan. Shares of Common Stock used to pay the exercise price or tax obligations, or shares not issued in connection with settlement of a Stock Option or Stock Appreciation Right or that are used or withheld to satisfy tax obligations of an awardee shall, notwithstanding anything herein to the contrary, not be available again for Awards under the Plan.

(c) *Changes in Capitalization.* In the event of any change in corporate capitalization (including, but not limited to, a change in the number of shares of Common Stock outstanding), such as a stock split or a corporate transaction, any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, the Committee or Board shall make such equitable substitution or adjustments in the aggregate number and kind of shares reserved for issuance under the Plan, and the maximum limitation

upon Stock Options and Stock Appreciation Rights to be granted to any awardee, in the number, kind and exercise price of shares subject to outstanding Stock Options and Stock Appreciation Rights, in the number and kind of shares subject to other outstanding Awards granted under the Plan and such other equitable substitution or adjustments as it may determine to be appropriate; *provided, however*, that the number of shares subject to any Award shall always be a whole number. Such adjusted exercise price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option. Unless otherwise determined by the Committee or Board, any adjustments to Incentive Stock Options shall be made only to the extent not constituting a “modification” within the meaning of Section 424(h)(3) of the Code and any adjustments to Stock Options shall be made in a manner which does not result in a violation of Section 409A of the Code.

(d) *Substitute Awards.* Awards may, in the sole discretion of the Committee, be granted under the Plan in assumption of, or in substitution for, outstanding awards previously granted by an entity acquired by the Company or with which the Company combines (“Substitute Awards”). The number of shares of Common Stock underlying any Substitute Awards shall be counted against the aggregate number of shares of Common Stock available for Awards under the Plan.

SECTION 4. Eligibility

Subject to any other restrictions set forth herein, Awards may be granted or awarded under the Plan only to Eligible Awardees who have entered into Award agreements or who have received written notification from the Committee or from a person designated by the Committee, that they have been selected to participate in the Plan.

SECTION 5. Stock Options

Stock Options may be granted alone or in addition to other Awards granted under the Plan and may be of two types: Incentive Stock Options and Nonqualified Stock Options. Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

The Committee shall have the authority to grant any optionee Incentive Stock Options, Nonqualified Stock Options or both types of Stock Options (in each case with or without Stock Appreciation Rights); *provided, however*, that grants hereunder are subject to the aggregate limit on grants to Eligible Awardees set forth in Section 3. Incentive Stock Options may be granted only to officers or other employees of the Company and its parent or subsidiary corporations (within the meaning of Section 424(e) and (f) of the Code). In the case of an Incentive Stock Option, the terms and conditions of such grant shall be subject to and comply with such rules as may be prescribed by Section 422 of the Code. If for any reason a Stock Option intended to be an Incentive Stock Option (or any portion thereof) shall not qualify as an Incentive Stock Option, then, to the extent of such nonqualification, such Stock Option or portion thereof shall be regarded as a Nonqualified Stock Option appropriately granted under the Plan.

Stock Options shall be evidenced by option agreements (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)), the terms and provisions of which may differ. An option agreement shall indicate on its face whether it is intended to be an agreement for an Incentive Stock Option or a Nonqualified Stock Option. The Company shall notify an Eligible Awardee of any grant of a Stock Option, and an option agreement or agreements shall be duly executed and delivered by the Company to such optionee. Such agreement or agreements shall become effective as of the Date of Grant upon execution by the Company and the optionee.

Stock Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions as the Committee shall deem desirable:

(a) *Exercise price.* The exercise price per share of Common Stock shall not be less than the greater of the par value or the Fair Market Value of a share of the Common Stock on the Date of Grant; *provided, however*, that in the event the optionee of an Incentive Stock Option owns (or is deemed to own pursuant to Section 424(d) of the Code), at the time such Stock Option is awarded or granted, more than ten percent (10%) of the voting power of all classes of stock of the Company or of any parent or subsidiary corporation of the Company (within the meaning of Section 424(e) and (f) of the Code), the exercise price shall not be less than 110% of such Fair Market Value.

(b) *Option Term.* The term of each Stock Option shall be fixed by the Committee, but no Stock Option shall be exercisable more than six (6) years after the date the Stock Option is granted, and no more than five (5) years after such date in the case of an Incentive Stock Option granted to an Employee who is a more than ten percent (10%) shareholder as described in Section 5(a) above on the date of award or grant.

(c) *Exercisability.* Except as otherwise provided herein, Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee. If the Committee provides that any Stock Option vests or becomes exercisable only in installments, the Committee may at any time waive such installment exercise

provisions, in whole or in part, based on such factors as the Committee may determine. In addition, the Committee may at any time accelerate the exercisability of any Stock Option.

(d) *Method of Exercise.* Subject to the provisions of this Section 5, Stock Options may be exercised, in whole or in part, at any time during the option term by giving written notice of exercise to the Company specifying the number of shares of Common Stock subject to the Stock Option to be purchased. Such notice shall be accompanied by payment in full of the exercise price by certified or bank check or such other instrument as the Company may accept. If approved by the Committee, payment, in full or in part, may also be made in the form of unrestricted Common Stock (by delivery of such shares or by attestation) already owned by the optionee of the same class as the Common Stock subject to the Stock Option (based on the Fair Market Value of the Common Stock on the date the Stock Option is exercised); *provided, however*, that, in the case of an Incentive Stock Option, the right to make a payment in the form of already owned shares of Common Stock of the same class as the Common Stock subject to the Stock Option may be authorized only at the time the Stock Option is granted and *provided, further*, that such already owned shares shall have been held by the optionee for at least six (6) months (or such shorter or longer period required to avoid a charge to earnings for financial accounting purposes) at the time of exercise or shall have been purchased on the open market.

If approved by the Committee, payment in full or in part may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale proceeds necessary to pay the exercise price, and, if requested, by the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

In addition, if approved by the Committee, payment in full or in part may also be made by instructing the Committee to withhold a number of such shares having a Fair Market Value on the date of exercise equal to the aggregate exercise price of such Stock Option.

No shares of Common Stock shall be issued until full payment therefor has been made. An optionee shall have all of the rights of a stockholder of the Company holding the class and/or series of Common Stock that is subject to such Stock Option (including, if applicable, the right to vote the shares and the right to receive dividends), only at such time as the optionee has given written notice of exercise, has paid in full for such shares and, if requested, has given the representation described in Section 13(a).

(e) *Notification Upon Disqualifying Disposition of an Incentive Stock Option.* Each awardee of an Incentive Stock Option under the Plan shall notify the Company in writing immediately after the date he or she makes a disqualifying disposition of any shares of Common Stock acquired pursuant to the exercise of such Incentive Stock Option. A disqualifying disposition is any disposition (including, without limitation, any sale) of such shares of Common Stock before the later of (A) two years after the Date of Grant of the Incentive Stock Option or (B) one year after the date of exercise of the Incentive Stock Option. The Company may, if determined by the Committee and in accordance with procedures established by the Committee, retain possession of any shares of Common Stock acquired pursuant to the exercise of an Incentive Stock Option as agent for the applicable awardee until the end of the period described in the preceding sentence.

(f) *Compliance With Laws, etc.* Notwithstanding the foregoing, in no event shall an awardee be permitted to exercise a Stock Option in a manner that the Committee determines would violate the Sarbanes-Oxley Act of 2002, or any other applicable law or the applicable rules and regulations of the Securities and Exchange Commission or the applicable rules and regulations of any securities exchange or inter-dealer quotation system on which the securities of the Company are listed or traded.

(g) *Nontransferability of Stock Options.* No Stock Option shall be transferable by the optionee other than (i) by will or by the laws of descent and distribution; or (ii) in the case of a Nonqualified Stock Option, as otherwise expressly permitted by the Committee including, if so permitted, pursuant to a transfer to a family member or members of the optionee, whether directly or indirectly or by means of a trust or partnership or otherwise. For purposes of this Plan, unless otherwise determined by the Committee, "family member" shall have the meaning given to such term in General Instructions A.1(a)(5) to Form S-8 under the Securities Act of 1933 as amended, and any successor thereto. All Stock Options shall be exercisable, subject to the terms of this Plan, only by the optionee, the guardian or legal representative of the optionee, or any person to whom such option is transferred pursuant to this paragraph, it being understood that the term "holder" and "optionee" include such guardian, legal representative and other transferee.

(h) *Termination by Death.* Unless otherwise determined by the Committee, if an optionee incurs a Termination of Employment by reason of death, any Stock Option held by such optionee may thereafter be exercised, to the extent then exercisable, or on such accelerated basis as the Committee may determine, for a period of one (1) year (or such other period as the Committee may specify in the option agreement) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(i) *Termination by Reason of Disability.* Unless otherwise determined by the Committee, if an optionee incurs a Termination of Employment by reason of Disability, any Stock Option held by such optionee may thereafter be exercised by the optionee, to the extent it was exercisable at the time of such Termination of Employment, or on such accelerated basis as the Committee may determine, for a period of one (1) year (or such other period as the Committee may specify in the option agreement) from the date of such Termination of Employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; *provided, however*, that if the optionee dies within such period, any unexercised Stock Option held by such optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of one (1) year from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of Termination of Employment by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(j) *Termination by Reason of Retirement.* Unless otherwise determined by the Committee, if an optionee incurs a Termination of Employment by reason of Retirement, any Stock Option held by such optionee may thereafter be exercised by the optionee, to the extent it was exercisable at the time of such Retirement, or on such accelerated basis as the Committee may determine, for a period of two years (or such other period as the Committee may specify in the option agreement) from the date of such Termination of Employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; *provided, however*, that if the optionee dies within such period any unexercised Stock Option held by such optionee shall, notwithstanding the expiration of such period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of one year from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of Termination of Employment by reason of Retirement, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(k) *Other Terminations.* Unless otherwise determined by the Committee: (A) if an optionee incurs a Termination of Employment for Cause, all Stock Options held by such optionee shall thereupon terminate upon such termination; and (B) if an optionee incurs a Termination of Employment for any reason other than death, Disability, Retirement or for Cause, any Stock Option held by such optionee, to the extent it was then exercisable at the time of termination, or on such accelerated basis as the Committee may determine, may be exercised for the period of the earlier of three (3) months from the date of such Termination of Employment or the expiration of the stated term of such Stock Option; *provided, however*, that if the optionee dies within such three-month period, any unexercised Stock Option held by such optionee shall, notwithstanding the expiration of such three-month period, continue to be exercisable to the extent to which it was exercisable at the time of death for a period of one (1) year from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. Notwithstanding any other provision of this Plan to the contrary, in the event an optionee incurs a Termination of Employment other than for Cause during the 24-month period following a Change in Control, any Stock Option held by such optionee may thereafter be exercised by the optionee, to the extent it was exercisable at the time of termination, or on such accelerated basis as the Committee may determine, for the shorter of (x) the longer of (i) one (1) year from such date of termination or (ii) such other period as may be provided in the Plan for such Termination of Employment or as the Committee may provide in the option agreement, or (y) expiration of the stated term of such Stock Option. If an Incentive Stock Option is exercised after the expiration of the post-termination exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(l) *Cashing Out of Stock Option.* On receipt of written notice of exercise, the Committee (but not the optionee) may elect to cash out all or part of the portion of the shares of Common Stock for which a Stock Option is being exercised by paying the optionee an amount, in cash or Common Stock, equal to the excess of the Fair Market Value of the Common Stock over the exercise price times the number of shares of Common Stock for which the Stock Option is being exercised on the effective date of such cash-out.

(m) *Change in Control Cash-Out.* Notwithstanding any other provision of the Plan, during the 60-day period from and after a Change in Control (the "Exercise Period"), if the Committee shall determine at the time of grant or thereafter, an optionee shall have the right, whether or not the Stock Option is fully exercisable and in lieu of the payment of the exercise price for the shares of Common Stock being purchased under the Stock Option and by giving notice to the Company, to elect (within the Exercise Period) to surrender all or part of the Stock Option to the Company and to receive cash, within thirty (30) days of such election, in an amount equal to the amount by which the Change in Control Price per share of Common Stock on the date of such election shall exceed the exercise price per share of Common Stock under the Stock Option (the "Spread") multiplied by the number of shares of Common Stock granted under the Stock Option as to which the right granted under this Section 5(m) shall have been exercised.

(n) *[Reserved]*

SECTION 6. Stock Appreciation Rights

(a) *Grant and Exercise.* Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option granted under the Plan. In the case of a Nonqualified Stock Option, such rights may be granted either at or after the time of grant of such Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of grant of such Stock Option. A Stock Appreciation Right shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option.

A Stock Appreciation Right may be exercised by an optionee in accordance with Section 6(b) by surrendering the applicable portion of the related Stock Option in accordance with procedures established by the Committee. Upon such exercise and surrender, the optionee shall be entitled to receive an amount determined in the manner prescribed in Section 6(b). Stock Options which have been so surrendered shall no longer be exercisable to the extent the related Stock Appreciation Rights have been exercised.

(b) *Terms and Conditions.* Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined by the Committee, including the following:

(i) Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate are exercisable in accordance with the provisions of Section 5 and this Section 6.

(ii) Upon the exercise of a Stock Appreciation Right, an optionee shall be entitled to receive an amount in cash, shares of Common Stock or both, in value equal to the excess of the Fair Market Value of one share of Common Stock over the exercise price per share specified in the related Stock Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment.

(iii) Stock Appreciation Rights shall be transferable only to permitted transferees of the underlying Stock Option in accordance with Section 5(g).

(iv) Upon the exercise of a Stock Appreciation Right, the Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 on the number of shares of Common Stock to be issued under the Plan, but only to the extent of the number of shares covered by the Stock Appreciation Right at the time of exercise at such time.

SECTION 7. Performance Awards

(a) *Administration.* Performance Awards may be awarded either alone or in addition to other Awards granted under the Plan. A Performance Award shall consist of the conditional right to receive shares of Common Stock, cash (including cash bonuses determined with or without reference to shares of Common Stock) or a combination of such shares and cash based upon the attainment of specified goals over the term of an Award Cycle. In the event Performance Awards consist of a conditional right to receive cash bonuses, such bonuses may be expressed as percentages of a bonus pool that is established in accordance with the requirements of the Section 162(m) Exemption.

(b) *Terms and Conditions.* Performance Awards shall be subject to the following terms and conditions:

(i) The Committee may, prior to or at the time of the grant, designate a Performance Award as a Qualified Performance-Based Award, in which event it shall condition the settlement thereof upon the attainment of one or more Performance Goals and shall otherwise structure the Award so as to qualify for the Section 162(m) Exemption. In the case of a Qualified Performance-Based Award, within the first ninety (90) days of an Award Cycle (or, if longer or shorter, within the maximum period allowed under the Section 162(m) Exemption), the Committee shall determine the Eligible Awardees to whom and the time or times at which Performance Awards shall be awarded, the amount of cash or the number of shares of Common Stock that may be paid or issued pursuant to Performance Awards awarded to any Eligible Awardee or any group of Eligible Awardees, the duration of the applicable Award Cycle, the Performance Criteria that will be used to establish the Performance Goal(s), the kind(s) and/or level(s) of the Performance Goal(s) that is (are) to apply and the Performance Formula. If the Committee does not designate a Performance Award as a Qualified Performance-Based Award, it may nevertheless condition the settlement thereof upon the attainment of one or more Performance Goals. Regardless of whether Performance Awards are Qualified Performance-Based Awards, the Committee may also condition the settlement thereof upon the continued service of the awardee. The provisions of such Awards (including without limitation any applicable Performance Goals) need not be the same with respect to each awardee. Subject to the provisions of the Plan and the Performance Award Agreement referred to in Section 7(b)(vi), Performance Awards may not be sold, assigned, transferred, pledged or otherwise encumbered during the Award Cycle. Over any period of five fiscal years of the Company the sum of any cash paid, and the Fair Market Value, as of the date of payment or issuance, of any shares of Common Stock paid or issued, to an awardee pursuant to Qualified Performance-

Based Awards may not exceed ten percent (10%) of the reported EBITDA of the Company and its Affiliates for such five year period.

(ii) Except to the extent otherwise provided in the applicable Performance Award Agreement (or other governing document), upon an awardee's Termination of Employment for any reason during the Award Cycle or before any applicable Performance Goals are satisfied, all rights to receive cash or stock in settlement of any Performance Awards shall be forfeited by the awardee; *provided, however*, that the Committee shall have the discretion to waive, in whole or in part, any or all remaining payment limitations (other than, in the case of Performance Awards that are Qualified Performance-Based Awards, satisfaction of the applicable Performance Goals unless the awardee's employment is terminated by reason of death or Disability) with respect to any or all of such awardee's Performance Awards.

(iii) *[Reserved]*

(iv) At the expiration of the applicable Award Cycle, the Committee shall evaluate the Company's performance in light of any Performance Goals and other conditions for a Performance Award. In the case of Qualified Performance-Based Awards, the Committee shall certify in writing whether, and to what extent, the Performance Goals for the Award Cycle have been achieved and, if so, shall determine and certify in writing the number of shares of Common Stock or the amount of cash or both, that has been earned by the awardee. The Company shall then cause to be delivered to the awardee the earned cash amount or the number of shares, as appropriate; *provided, however*, that any Performance Award that may be settled by the issuance of shares of Common Stock may, in the discretion of the Committee, be settled by the payment of cash equal to the Fair Market Value of such number of shares of Common Stock.

(v) In determining the actual amount of an individual awardee's Performance Award for an Award Cycle, the Committee may reduce or eliminate the amount of the Performance Award earned under the Performance Formula in the Award Cycle through the use of negative discretion if, in its sole discretion, such reduction or elimination is appropriate. The Committee shall not have the discretion, except as otherwise provided in the Plan, to (A) grant or provide payment in respect of a Performance Award for an Award Cycle if the Performance Goal(s) for such Award Cycle have not been attained; or (B) increase a Performance Award above the applicable limitations set forth in Section 7(b)(vii) of the Plan.

(vi) Except to the extent otherwise provided in the Performance Award Agreement (or other governing document), Performance Awards granted for an Award Cycle shall be paid as soon as administratively practicable following completion of the Award Cycle and, to the extent applicable, the certification required by Section 7(iv) and no later than March 15 of the year following the year in which the Award Cycle ends.

(vii) Each Award shall, unless otherwise documented by the Committee, be confirmed by, and be subject to, the terms of a written agreement (a "Performance Award Agreement").

(viii) Notwithstanding any provision contained in this Plan to the contrary, the maximum Qualified Performance-Based Award payable to any one awardee under the Plan for an Award Cycle is 1,000,000 shares of Common Stock or, in the event such Qualified Performance-Based Award is paid in cash with reference to shares of Common Stock, the equivalent cash value thereof on the first or last day of the Award Cycle to which such Award relates, as determined by the Committee. The maximum amount that can be paid in any calendar year to any awardee pursuant to a cash bonus Award that is determined without reference to shares of Common Stock shall be \$10,000,000. Furthermore, any Qualified Performance-Based Award that has been deferred shall not (between the date as of which the Award is deferred and the payment date) increase (A) with respect to a Qualified Performance-Based Award that is payable in cash, by a measuring factor for each fiscal year greater than a reasonable rate of interest set by the Committee; or (B) with respect to a Qualified Performance-Based Award that is payable in shares of Common Stock, by an amount greater than the appreciation of a share of Common Stock from the date such Award is deferred to the payment date.

SECTION 8. [Reserved]

SECTION 9. Other Stock-Based Awards

Awards not described in Sections 5, 6 or 7 above that constitute grants or awards of Common Stock or other grants or awards that are valued in whole or in part by reference to, or are otherwise based upon, Common Stock, including, without limitation, restricted shares of Common Stock, dividend equivalents and convertible debentures, may be granted either alone or in conjunction with other Awards granted under the Plan. The Committee may, in its sole discretion, prescribe such conditions or restrictions (including the attainment of Performance Goals and/or other restrictions designed to satisfy the Section 162(m) Exemption) for the vesting or settlement of any such other Awards described in this Section as it may deem advisable.

SECTION 10. Change in Control Provisions

(a) *Impact of Event.* Notwithstanding any other provision of the Plan to the contrary, the Committee may provide in the terms of any grant that in the event of a Change in Control:

(i) Any Stock Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become fully exercisable and vested to the full extent of the original grant.

(ii) All Performance Awards shall be considered to be earned and payable in full, and any deferral or other restriction shall lapse and such Performance Awards shall be settled in cash as promptly as is practicable.

(b) *Definition of Change in Control.* For purposes of the Plan, a “Change in Control” shall mean the occurrence of any of the following events:

(i) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 40% or more of either (1) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company, or (4) any acquisition pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) of this Section 10(b); or

(ii) A change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board being hereinafter referred to as the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; *provided, however*, for purposes of this Section 10(b), that any individual who becomes a member of the Board subsequent to the Effective Date, whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this provision) shall be considered as though such individual were a member of the Incumbent Board; but, *provided further*, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (“Corporate Transaction”); excluding, however, such a Corporate Transaction pursuant to which (1) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 50% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, 40% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction, and (3) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(iv) A complete liquidation or dissolution of the Company.

(c) *Change in Control Price.* For purposes of the Plan, “Change in Control Price” means the higher of (i) the highest reported sales price, regular way, of a share of Common Stock in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which such shares are listed or on NYSE during the 60-day period prior to and including the date of a Change in Control or (ii) if the Change in Control is the result of a tender or exchange offer or a Corporate Transaction, the highest price per share of Common Stock paid in such tender or exchange offer or Corporate Transaction; *provided, however*, that in the case of Incentive Stock Options and Stock Appreciation

Rights relating to Incentive Stock Options, the Change in Control Price shall be in all cases the Fair Market Value of the Common Stock on the date such Incentive Stock Option or Stock Appreciation Right is exercised. To the extent that the consideration paid in any such transaction described above consists all or in part of securities or other noncash consideration, the value of such securities or other noncash consideration shall be determined at the sole discretion of the Board.

SECTION 11. Term, Amendment and Termination

The Plan will terminate on the day before the annual meeting of stockholders to be held in calendar year 2021; *provided, however*, that no Incentive Stock Option may be granted under the Plan after the day before the tenth anniversary of the stockholders' approval of the amendment and restatement of the Plan at the annual meeting held on May 12, 2011. Under the Plan, Awards outstanding as of such date shall not be affected or impaired by the termination of the Plan.

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would impair the rights of an optionee under a Stock Option or a recipient of a Stock Appreciation Right, Performance Award or other stock-based Award theretofore granted without the optionee's or recipient's consent, except such an amendment made to comply with applicable law, stock exchange rules or accounting rules. In addition, no such amendment shall be made without the requisite approval of the Company's stockholders if such amendment has the effect of changing the number of shares of Common Stock available for issuance under the Plan (other than changes or adjustments provided for in Section 3) or changing the identity of persons eligible to receive Awards or to the extent such approval is required by applicable law or stock exchange rules, including, without limitation, any law governing the Section 162(m) Exemption or the qualification of Incentive Stock Options under Section 422 of the Code.

The Committee may amend the terms of any Stock Option or other Award theretofore granted, prospectively or retroactively, but no such amendment shall cause a Qualified Performance-Based Award or any other Award intended to comply with the Section 162(m) Exemption to cease to qualify for such exemption or impair the rights of any holder without the holder's consent except such an amendment made to cause the Plan or Award to comply with applicable law, stock exchange rules or accounting rules. Stockholder approval shall be required for any Committee action that is subject to such approval as described in Section 2(e).

Subject to the above provisions, the Board shall have authority to amend the Plan to take into account changes in law and tax and accounting rules as well as other developments, and to grant Awards which qualify for beneficial treatment under such rules without stockholder approval.

SECTION 12. Unfunded Status of Plan

It is presently intended that the Plan constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; *provided, however*, that unless the Committee otherwise determines, the existence of such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan.

SECTION 13. General Provisions

(a) The Committee may require each person purchasing or receiving shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for shares of Common Stock under the Plan prior to fulfillment of all of the following conditions:

- (1) Listing or approval for listing upon notice of issuance, of such shares on the New York Stock Exchange, Inc., or such other securities exchange as may at the time be the principal market for the Common Stock;
- (2) Any registration or other qualification of such shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable; and
- (3) Obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

(b) Nothing contained in the Plan shall prevent the Company or any Subsidiary or Affiliate from adopting other or additional compensation arrangements for its employees.

(c) The Plan shall not constitute a contract of employment, and adoption of the Plan shall not confer upon any employee any right to continued employment, nor shall it interfere in any way with the right of the Company or any Subsidiary or Affiliate to terminate the employment of any employee at any time.

(d) No later than the date as of which an amount first becomes includible in the gross income of the recipient of an Award for federal income tax purposes with respect to any Award under the Plan, the awardee shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes (or other amounts) of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Company, withholding obligations may be settled with Common Stock, including Common Stock that is part of the Award that gives rise to the withholding requirement; provided that not more than the legally required minimum withholding may be settled with Common Stock. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the awardee. The Committee may establish such procedures as it deems appropriate, including making irrevocable elections, for the settlement of withholding obligations with Common Stock.

(e) The Committee shall establish such procedures as it deems appropriate for an awardee to designate a beneficiary to whom any amounts payable in the event of the awardee's death are to be paid or by whom any rights of the awardee, after the awardee's death, may be exercised.

(f) In the case of a grant of an Award to any employee of a Subsidiary of the Company, the Company may, if the Committee so directs, issue or transfer the shares of Common Stock, if any, covered by the Award to the Subsidiary, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Subsidiary will transfer the shares of Common Stock to the employee in accordance with the terms of the Award specified by the Committee pursuant to the provisions of the Plan. All shares of Common Stock underlying Awards that are forfeited or canceled shall revert to the Company.

(g) The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

(h) Except as otherwise provided in Section 5(g) or 6(b)(iii) or by the Committee, Awards under the Plan are not transferable except by will or by laws of descent and distribution.

(i) In the event an Award is granted to an Eligible Awardee who is employed or providing services outside the United States and who is not compensated from a payroll maintained in the United States, the Committee may, in its sole discretion, modify the provisions of the Plan as they pertain to such individual to comply with applicable foreign law.

(j) The Committee may, in its sole discretion, permit an awardee to elect to further defer receipt of cash or shares of Common Stock in settlement of a Performance Award until a specified date or until a specified event described in Section 409A(a)(2) of the Code, under such terms as the Committee may determine and in accordance with the requirements of Code Section 409A and the regulations issued thereunder. No such election in the case of a Qualified Performance-Based Award may cause the Award to fail to qualify for the Section 162(m) Exemption.

(k) If so determined by the Committee, the provisions of the Plan regarding Performance Awards shall be disclosed and reapproved by stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which stockholders previously approved such provisions, in each case in order for certain Awards granted after such time to qualify for the Section 162(m) Exemption. Nothing in this clause, however, shall affect the validity of Awards granted after such time if such stockholder approval has not been obtained.

SECTION 14. Effective Date of Plan

The Plan shall be effective as of the Effective Date. The foregoing notwithstanding, no issuance of shares or settlement of any Award or other payment of compensation under the Plan may occur until shareholder approval of the Plan.

SECTION 15. Director Equity Grants

(a) Each director of the Company who is not otherwise an employee of the Company or any of its Subsidiaries or Affiliates, shall on the first day after his or her first election as a director of the Company automatically be granted 50,000 Nonqualified Stock Options to purchase Common Stock having an exercise price of 100% of Fair Market Value of the Common Stock on the Date of Grant of such Nonqualified Stock Option.

(b) Annually thereafter each such non-employee director shall be granted such Award, if any, as provided by the Company's policy regarding the compensation of non-employee directors as approved from time to time by the Compensation Committee and the full Board.

(c) In the event that the number of shares of Common Stock available for future grant under the Plan is insufficient to make all automatic grants required to be made on the date specified in Section 15(a), then all non-employee directors entitled to a grant on such date shall share ratably in the number of options on shares available for grant under the Plan.

(d) Each holder of a Stock Option granted pursuant to this Section 15 shall also have the rights specified in Section 5(m). Except as expressly provided in this Section 15, any Stock Option granted hereunder shall be subject to the terms and conditions of the Plan as if the grant were made pursuant to Section 5 hereof.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF CBIZ, INC.

I, Steven L. Gerard, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CBIZ, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2011

/s/ STEVEN L. GERARD

Steven L. Gerard
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER OF CBIZ, INC.

I, Ware H. Grove, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CBIZ, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2011

/s/ WARE H. GROVE

Ware H. Grove
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF CBIZ, INC.

This certification is provided pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and accompanies the quarterly report on Form 10-Q for the period ended June 30, 2011 (the "Form 10-Q") of CBIZ, Inc. (the "Issuer") filed with the Securities and Exchange Commission on the date hereof.

I, Steven L. Gerard, the Chief Executive Officer of the Issuer, certify that to the best of my knowledge:

- (i) the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: August 9, 2011

/s/ STEVEN L. GERARD

Steven L. Gerard

Chief Executive Officer

Subscribed and sworn to before me
this 9th day of August, 2011.

/s/ MICHAEL W. GLEESPEN

Name: Michael W. Gleespen

Title: Notary Public & Attorney-At-Law
Registered in Franklin County, Ohio
No Expiration Date

CERTIFICATION OF CHIEF FINANCIAL OFFICER OF CBIZ, INC.

This certification is provided pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and accompanies the quarterly report on Form 10-Q for the period ended June 30, 2011 (the "Form 10-Q") of CBIZ, Inc. (the "Issuer") filed with the Securities and Exchange Commission on the date hereof.

I, Ware H. Grove, the Chief Financial Officer of the Issuer, certify that to the best of my knowledge:

- (i) the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: August 9, 2011

/s/ WARE H. GROVE

Ware H. Grove
Chief Financial Officer

Subscribed and sworn to before me
this 9th day of August, 2011.

/s/ MICHAEL W. GLEESPEN

Name: Michael W. Gleespen

Title: Notary Public & Attorney-At-Law
Registered in Franklin County, Ohio
No Expiration Date