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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) May 22, 2006

CBIZ, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction
of Incorporation)

0-25890

(Commission
File Number)

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)

216-447-9000

Registrant's Telephone Number, Including Area

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01 Other Events

On May 22, 2006, CBIZ, Inc. (the "Company") issued a press release announcing its offer to qualified institutional buyers, pursuant to Rule 144A under the Securities Act of 1933, as amended ("Securities Act"), of \$85 million aggregate principal amount of its Convertible Senior Subordinated Notes due 2026. A copy of this press release is filed herewith as Exhibit 99.1.

In this Current Report on Form 8-K the Company is updating the historical financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (the "2005 Form 10-K") for presentation of a business unit as discontinued operations, and to reflect a change in our reporting segments, and certain reclassifications.

As reported in the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (the "10-Q"), we sold a business unit from our Financial Services practice group in April 2006. This transaction met the requirements under Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144") for classification as a discontinued operation.

Also as reported in our 10-Q, we realigned our operations into four client-centric practice groups in the first quarter of 2006. We also reclassified certain income and expenses (the "Reclassifications") made during the first quarter of 2006 involving 1) interest income earned by our payroll unit which previously was reported as "other income" and is now reported as revenue, and 2) certain expenses reimbursable to CBIZ by its clients previously netted against revenue which are now reported as operating expenses.

Under requirements of the Securities and Exchange Commission (the "SEC"), the same classification as discontinued operations required by SFAS No. 144 is also required for previously issued financial statements included in the 2005 Form 10-K, if those financial statements are incorporated by reference in filings with the SEC made under the Securities Act even though those financial statements relate to periods prior to this business operation being classified as discontinued operations.

On May 10, 2006, the Company filed its 10-Q with the SEC and presented its results to reflect the discontinued operations, revised segment information and Reclassifications. These reclassifications had no effect on the Company's reported net income for any reporting period and had no material effect on the Company's results of operations or financial condition.

This report includes our reclassified audited consolidated financial statements for the years ended December 31, 2005, 2004 and 2003.

The reclassified consolidated financial information is attached to this Current Report on Form 8-K as Exhibit 99.2. Because we are reclassifying certain financial information in the 2005 Form 10-K only for discontinued operations, segment reporting and the Reclassifications, the revised sections of our 2005 Form 10-K included in this report have not been otherwise updated for events occurring after the date of our consolidated financial statements, which were originally presented in the 2005 Form 10-K filed on March 16, 2006. All other information in the 2005 Form 10-K remains unchanged. This report should be read in conjunction with our 2005 Form 10-K (except for Item 8 of Part II, which is contained in this report).

Item 9.01 Financial Statements and Exhibits

23.1 Consent of Independent Registered Public Accounting Firm

99.1 Press Release of CBIZ, Inc. dated May 22, 2006 announcing intention to offer Convertible Senior Subordinated Notes due 2026.

99.2 Revised Consolidated Financial Statements and Supplementary Data for the years ended December 31, 2005, 2004 and 2003 (Part II—Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC on March 16, 2006).

Signatures

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 hereunto duly authorized.

Date: May 22, 2006

CBIZ, INC.

/s/ Ware H. Grove _____
Ware H. Grove
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
CBIZ, Inc.:

We consent to the incorporation by reference in the registration statement Nos. 333-35049, 333-74647 and 333-62148 on Form S-8; Nos. 333-64109, 333-76179 and 333-27825 on Form S-3; Nos. 333-15413, 333-46687, 333-90749 and 333-40331 on Form S-3, as amended; and Nos. 333-40313 and 333-81039 on Form S-4, as amended, of CBIZ, Inc. and subsidiaries (Company) of our report dated March 15, 2006 (May 22, 2006 as to the effects of discontinued operations, segment classification and other reclassifications discussed in Note 21), with respect to the consolidated balance sheets of the Company as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the years in the three-year period ended December 31, 2005, and the related financial statement schedule, which report appears herein.

/s/ KPMG LLP

Cleveland, Ohio
May 22, 2006



PRESS release

FOR IMMEDIATE RELEASE

CONTACT: **Ware Grove**
Chief Financial Officer
- -or-
Lori Novickis
Director, Corporate Relations
CBIZ, Inc.
Cleveland, Ohio
(216) 447-9000

CBIZ TO OFFER \$85 MILLION CONVERTIBLE SENIOR SUBORDINATED NOTES

NET SHARE SETTLEMENT FEATURE PROVIDES FOR PRINCIPAL TO BE REPAYED IN CASH

Cleveland, Ohio (May 22, 2006)—CBIZ, Inc. (NASDAQ: CBIZ) today announced its intention to offer \$85 million in aggregate principal amount of Convertible Senior Subordinated Notes due 2026. The Notes are being offered to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The company also intends to grant the initial purchaser an option to purchase up to an additional \$15 million in aggregate principal amount of the Notes.

The company intends to use approximately 50% of the proceeds from the sale of the Notes to repurchase shares of its common stock that may become available from certain institutional buyers of the Notes in connection with their hedging strategies concurrent with the issuance of the Notes. The remaining balance of the proceeds will be used to repay a portion of the \$48 million outstanding balance under the company's \$100 million unsecured credit facility or for other general corporate purposes.

The Notes may be converted, under certain circumstances, into cash and, at the company's election, shares of the company's common stock at a conversion rate to be determined, subject to adjustment upon certain events. The Notes contain a net settlement feature so that upon conversion, the company will deliver cash equal to the lesser of the aggregate principal amount of Notes to be converted and the company's total conversion obligation, plus cash or shares of the company's common stock at the company's election, for the remainder, if any, of the conversion obligation.

The Notes will rank junior in right of payment with all of the company's existing and future senior indebtedness. The Notes will bear interest at a fixed rate, payable semiannually, and beginning on June 6, 2011 the company may be required to pay contingent interest under certain circumstances.

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The Notes may not be redeemed by the company prior to June 6, 2011. Holders of the Notes may require the company to repurchase some or all of the Notes on June 1, 2011, June 1, 2016, June 1, 2021 and upon certain specified corporate transactions.

This press release does not constitute an offer to sell or the solicitation of any offer to buy any securities. The offering will be made only to qualified institutional buyers in accordance with rule 144A under the Securities Act of 1933, as amended. The securities to be offered have not been registered under the Securities Act, or any state securities laws, and unless so registered, may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act and applicable state securities laws.

CBIZ, Inc. provides professional business services that help clients better manage their finances, employees and technology. As the largest benefits specialist, one of the largest accounting, valuation and medical practice management companies in the United States, CBIZ provides its clients with integrated financial services which include accounting and tax, internal audit, Sarbanes-Oxley 404 compliance, and valuation. Employee services include employee benefits, property and casualty insurance, payroll, HR consulting and wealth management. CBIZ also provides information technology, hardware and software solutions, government relations; healthcare consulting and medical practice management. These services are provided throughout a network of more than 140 Company offices in 34 states and the District of Columbia.

This press release contains forward-looking statements within the meaning of the Private Securities Litigation reform Act of 1995. Risk factors that could cause actual results to differ are discussed in our Report on Form 10-K for the year ended December 31, 2005, and the reader is directed to these statements for a further discussion of important factors that could cause actual results to differ materially from those in the forward-looking statements.

*For further information regarding **CBIZ**, call our Investor Relations Office at (216) 447-9000 or visit our web site at www.cbiz.com.*

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
CBIZ, Inc.:

We have audited the consolidated financial statements of CBIZ, Inc. and subsidiaries (Company) as listed in the accompanying index on page 5. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index on page 5. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBIZ, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP
Cleveland, Ohio

March 15, 2006 (May 22, 2006 as to the effects of discontinued operations, segment classification and other reclassifications discussed in Note 21)

CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004
(In thousands)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,909	\$ 5,291
Restricted cash	9,873	10,089
Accounts receivable, net	98,390	98,155
Notes receivable — current	6,042	1,377
Income taxes recoverable	—	7,146
Deferred income taxes — current	3,241	3,743
Other current assets	9,490	7,940
Assets of discontinued operations	8,485	20,147
Current assets before funds held for clients	144,430	153,888
Funds held for clients	65,669	32,787
Total current assets	210,099	186,675
Property and equipment, net	33,403	35,933
Notes receivable — non-current	3,575	4,726
Deferred income taxes — non-current	9,199	7,259
Goodwill and other intangible assets, net	184,673	171,782
Assets of deferred compensation plan	9,803	4,285
Other assets	3,832	3,514
Total assets	<u>\$ 454,584</u>	<u>\$ 414,174</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 26,427	\$ 24,915
Income taxes payable	1,115	—
Accrued personnel costs	35,920	24,319
Other current liabilities	18,332	16,272
Liabilities of discontinued operations	5,991	8,210
Current liabilities before client fund obligations	87,785	73,716
Client fund obligations	65,669	32,787
Total current liabilities	153,454	106,503
Bank debt	32,200	53,900
Deferred compensation plan obligations	9,803	4,285
Other non-current liabilities	4,466	2,989
Total liabilities	<u>199,923</u>	<u>167,677</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share; Shares authorized 250,000; Shares issued 98,381 and 96,407; Shares outstanding 73,822 and 75,651	984	964
Additional paid-in capital	450,734	444,584
Accumulated deficit	(94,714)	(113,387)
Treasury stock, 24,559 and 20,756 shares	(102,317)	(85,650)
Accumulated other comprehensive loss	(26)	(14)
Total stockholders' equity	254,661	246,497
Total liabilities and stockholders' equity	<u>\$ 454,584</u>	<u>\$ 414,174</u>

See the accompanying notes to the consolidated financial statements.

CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(In thousands, except per share data)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue	\$563,468	\$507,468	\$482,889
Operating expenses	<u>488,763</u>	<u>440,991</u>	<u>420,579</u>
Gross margin	74,705	66,477	62,310
Corporate general and administrative expense	24,911	24,099	18,745
Depreciation and amortization expense	<u>15,139</u>	<u>15,963</u>	<u>16,565</u>
Operating income	34,655	26,415	27,000
Other income (expense):			
Interest expense	(3,109)	(1,507)	(1,055)
Gain on sale of operations, net	314	996	2,519
Other income (expense), net	<u>4,171</u>	<u>3,219</u>	<u>(1,513)</u>
Total other income, net	1,376	2,708	(49)
Income from continuing operations before income tax expense	36,031	29,123	26,951
Income tax expense	<u>14,525</u>	<u>7,945</u>	<u>11,814</u>
Income from continuing operations	21,506	21,178	15,137
Loss from operations of discontinued operations, net of tax	(6,383)	(5,259)	(547)
Gain on disposal of discontinued operations, net of tax	<u>3,550</u>	<u>132</u>	<u>726</u>
Net income	<u>\$ 18,673</u>	<u>\$ 16,051</u>	<u>\$ 15,316</u>
Earnings (loss) per share:			
Basic:			
Continuing operations	\$ 0.29	\$ 0.27	\$ 0.17
Discontinued operations	<u>(0.04)</u>	<u>(0.07)</u>	<u>—</u>
Net income	<u>\$ 0.25</u>	<u>\$ 0.20</u>	<u>\$ 0.17</u>
Diluted:			
Continuing operations	\$ 0.28	\$ 0.26	\$ 0.16
Discontinued operations	<u>(0.04)</u>	<u>(0.06)</u>	<u>0.01</u>
Net income	<u>\$ 0.24</u>	<u>\$ 0.20</u>	<u>\$ 0.17</u>
Basic weighted average common shares outstanding	<u>74,448</u>	<u>79,217</u>	<u>90,400</u>
Diluted weighted average common shares outstanding	<u>76,827</u>	<u>81,477</u>	<u>92,762</u>

See the accompanying notes to the consolidated financial statements.

CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(In thousands)

	Issued Common Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Shares	Treasury Stock	Accumulated Other Comprehensive Loss	Totals
December 31, 2002	<u>95,121</u>	<u>\$ 951</u>	<u>\$439,684</u>	<u>\$ (144,754)</u>	<u>220</u>	<u>\$ (1,308)</u>	<u>\$ (255)</u>	<u>\$294,318</u>
Comprehensive income:								
Net income	—	—	—	15,316	—	—	—	15,316
Change in unrealized appreciation, net of tax							254	<u>254</u>
Total comprehensive income								15,570
Share repurchases	—	—	—	—	10,036	(33,578)	—	(33,578)
Divestiture consideration	—	—	—	—	46	(201)	—	(201)
Stock options	375	4	1,203	—	—	—	—	1,207
Business acquisitions and contingent payments	<u>177</u>	<u>2</u>	<u>520</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>522</u>
December 31, 2003	<u>95,673</u>	<u>\$ 957</u>	<u>\$441,407</u>	<u>\$ (129,438)</u>	<u>10,302</u>	<u>\$ (35,087)</u>	<u>\$ (1)</u>	<u>\$277,838</u>
Comprehensive income:								
Net income	—	—	—	16,051	—	—	—	16,051
Foreign currency translation adjustments							(13)	<u>(13)</u>
Total comprehensive income								16,038
Share repurchases	—	—	—	—	10,424	(50,419)	—	(50,419)
Restricted stock	—	—	518	—	—	—	—	518
Divestiture consideration	—	—	—	—	30	(144)	—	(144)
Stock options	519	5	1,696	—	—	—	—	1,701
Business acquisitions and contingent payments	<u>215</u>	<u>2</u>	<u>963</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>965</u>
December 31, 2004	<u>96,407</u>	<u>\$ 964</u>	<u>\$444,584</u>	<u>\$ (113,387)</u>	<u>20,756</u>	<u>\$ (85,650)</u>	<u>\$ (14)</u>	<u>\$246,497</u>
Comprehensive income:								
Net income	—	—	—	18,673	—	—	—	18,673
Foreign currency translation adjustments							(12)	<u>(12)</u>
Total comprehensive income								18,661
Share repurchases	—	—	—	—	3,803	(16,667)	—	(16,667)
Restricted stock	247	2	453	—	—	—	—	455
Stock options	1,658	17	5,401	—	—	—	—	5,418
Business acquisitions and contingent payments	<u>69</u>	<u>1</u>	<u>296</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>297</u>
December 31, 2005	<u>98,381</u>	<u>\$ 984</u>	<u>\$450,734</u>	<u>\$ (94,714)</u>	<u>24,559</u>	<u>\$ (102,317)</u>	<u>\$ (26)</u>	<u>\$254,661</u>

See the accompanying notes to the consolidated financial statements.



CBIZ, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(In thousands)

	2005	2004 (Revised)	2003 (Revised)
Cash flows from operating activities:			
Net income	\$ 18,673	\$ 16,051	\$ 15,316
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from operations of discontinued operations	6,383	5,259	547
Gain on disposal of discontinued operations	(3,550)	(132)	(726)
Gain on sale of operations, net	(314)	(996)	(2,519)
Bad debt expense, net of recoveries	4,999	4,107	4,829
Impairment of notes receivable	—	—	2,394
Notes payable extinguishment	(65)	(743)	—
Depreciation and amortization	15,139	15,963	16,565
Deferred income taxes	(2,426)	(3,616)	1,794
Stock awards	1,466	449	280
Changes in assets and liabilities, net of acquisitions and dispositions			
Restricted cash	216	791	5,968
Accounts receivable, net	(5,500)	(11,945)	(9,424)
Other assets	(8,327)	(6,770)	(1,574)
Accounts payable	1,198	(2,663)	6,109
Income taxes	6,177	(6,974)	3,789
Accrued personnel	11,601	4,228	3,519
Accrued expenses and other liabilities	6,123	4,863	(10,288)
Net cash provided by continuing operations	51,793	17,872	36,579
Operating cash flows provided by discontinued operations	1,821	2,318	3,076
Net cash provided by operating activities	<u>53,614</u>	<u>20,190</u>	<u>39,655</u>
Cash flows from investing activities:			
Business acquisitions including contingent consideration earned, net of cash acquired	(12,611)	(5,662)	(3,849)
Proceeds from sales of divested operations	133	3,030	5,590
Proceeds from sales of discontinued operations	2,000	1,549	1,599
Additions to notes receivable	—	(2,267)	(913)
Additions to property and equipment, net	(6,885)	(7,373)	(10,357)
Decreases in notes receivable	1,672	2,462	2,667
Investing cash flows provided by (used in) discontinued operations	647	(832)	(63)
Net cash used in investing activities	<u>(15,044)</u>	<u>(9,093)</u>	<u>(5,326)</u>
Cash flows from financing activities:			
Proceeds from bank debt	253,200	288,855	225,950
Proceeds from notes payable	87	—	324
Payment of bank debt	(274,900)	(248,955)	(229,450)
Payment of notes payable and capitalized leases	(845)	(428)	(1,062)
Payment for acquisition of treasury stock	(16,667)	(50,419)	(33,578)
Proceeds from exercise of stock options	4,173	1,350	927
Net cash used in financing activities	<u>(34,952)</u>	<u>(9,597)</u>	<u>(36,889)</u>
Net increase (decrease) in cash and cash equivalents	3,618	1,500	(2,560)
Cash and cash equivalents at beginning of year	5,291	3,791	6,351
Cash and cash equivalents at end of year	<u>\$ 8,909</u>	<u>\$ 5,291</u>	<u>\$ 3,791</u>

See the accompanying notes to the consolidated financial statements.

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

1. Organization and Summary of Significant Accounting Policies

Organization

CBIZ, Inc. is a diversified services company which, acting through its subsidiaries, provides professional business services primarily to small and medium-sized businesses, as well as individuals, governmental entities, and not-for-profit enterprises throughout the United States and Toronto, Canada. During the first quarter of 2006, CBIZ realigned its operations into four client-centric practice groups: Financial Services, Employee Services, Medical Management Professionals and National Practices. A further description of changes made during the first quarter of 2006, as well as products and services offered by each of the practice groups, is provided in Note 20.

Principles of Consolidation

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

Use of Estimates

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

Reclassifications

Certain amounts in the 2005, 2004 and 2003 consolidated financial statements have been reclassified to conform to the current year presentation. Reclassifications include, but may not be limited to: interest income earned by our payroll unit previously reported as "other income" which is now reported as revenue; certain expenses reimbursable to CBIZ by its clients previously netted against revenue which are now reported as operating expenses; legal settlements previously reported as other income (expense), net, which are now reported as corporate general and administrative expense; discontinued operations; and certain other expenses that were reclassified between operating and corporate general and administrative expenses.

In 2005, CBIZ has separately disclosed the operating and investing portions of the cash flows attributable to its discontinued operations, which in prior periods were combined and reported as a single amount. Prior periods have been revised to conform to the current year presentation. There were no financing activities attributable to the operations of discontinued operations in 2005, 2004 or 2003.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term highly liquid investments with an original maturity of three months or less at the date of purchase.

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

Restricted Cash

Restricted cash represents fees earned by CBIZ in relation to its capital and investment advisory services, as those funds are restricted in accordance with applicable NASD regulations. Restricted cash also represents funds on deposit from clients in connection with the pass through of insurance premiums to the carrier; the related liability for these funds is recorded in other current liabilities in the consolidated balance sheets.

Funds Held for Clients and Client Fund Obligations

Payroll services provided by CBIZ include the preparation of payroll checks, federal, state, and local payroll tax returns, and flexible spending account administration. In relation to these services, CBIZ collects funds from its clients' accounts in advance of paying these client obligations. Funds that are collected before they are due are segregated and reported separately as "funds held for clients" in the consolidated balance sheets, and may include cash, cash equivalents and short-term investments. Other than certain federal and state regulations pertaining to flexible spending account administration, there are no regulatory or other contractual restrictions placed on these funds. Funds held for clients and the related client fund obligations are included in the consolidated balance sheets as current assets and current liabilities, respectively. The amounts of collected but not yet remitted funds may vary significantly during the year.

One of the business units classified as a discontinued operation collects funds from clients' accounts in advance of paying the related client obligations. These funds and related liabilities are reported as "assets of discontinued operations" and "liabilities of discontinued operations," respectively, in the accompanying consolidated balance sheets. The amount of funds held for clients by our discontinued operations is disclosed in Note 18.

Assets of Deferred Compensation Plan

Assets of the deferred compensation plan represent marketable investments that consist primarily of mutual funds, money market funds and equity securities. CBIZ classifies these marketable securities as "trading" securities under Statement of Financial Accounting Standard (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In accordance with the provisions of this statement, the investment balance is stated at fair market value based on quoted market prices, and realized and unrealized gains and losses are reflected in earnings. The assets held in the deferred compensation plan reflect amounts due to employees, but are available for general creditors of CBIZ in the event CBIZ becomes insolvent. As such, CBIZ has recorded the investment as a non-current asset titled "assets of deferred compensation plan" and has established a corresponding other long-term liability entitled "deferred compensation plan obligations" in the consolidated balance sheets.

Derivative Instruments and Hedging Activities

CBIZ records derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as subsequently amended by SFAS 137, SFAS 138 and SFAS 149. Derivatives are recognized as either assets or liabilities in the consolidated balance sheets and are measured at fair value. The treatment of gains and losses resulting from changes in the fair values of derivative instruments is dependent on the use of the respective derivative instruments and whether they qualify for hedge accounting.

CBIZ did not utilize derivative instruments in 2005 or 2004. In 2003, CBIZ terminated an interest rate swap that was originated in 2001. The interest rate swap agreement qualified as a cash flow hedge, which was used to manage the interest rate mix of its credit facility and related overall cost of borrowing. For the year ended December 31, 2002, the change in fair value relating to

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

CBIZ's hedging activity resulted in a loss of approximately \$0.3 million, which is recorded in stockholders' equity under accumulated other comprehensive loss.

Fair Value of Financial Instruments

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Concentrations of Credit Risk

Financial instruments that may subject CBIZ to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. CBIZ places its cash and cash equivalents with highly-rated financial institutions, limiting the amount of credit exposure with any one financial institution. In addition, CBIZ conducts on-going evaluation of credit-worthiness of the financial institutions with which it does business. CBIZ's client base consists of large numbers of geographically diverse customers dispersed throughout the United States; thus, concentration of credit risk with respect to accounts receivable is not considered significant.

Goodwill and Other Intangible Assets

CBIZ utilizes the purchase method of accounting for all business combinations in accordance with SFAS No. 141, "Business Combinations." Identifiable intangible assets include finite-lived purchased intangible assets, which primarily consist of client lists and non-compete agreements. These assets are amortized using the straight-line method over their expected periods of benefit, generally two to ten years.

In accordance with the provisions of SFAS 142, "Goodwill and Other Intangible Assets," goodwill is not amortized. Goodwill is tested for impairment annually during the fourth quarter of each year, and between annual tests 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. To conduct a goodwill impairment test, the fair value of the reporting unit is compared to its carrying value. If the reporting unit's carrying value exceeds its fair value, CBIZ records an impairment loss to the extent that the carrying value of goodwill exceeds its implied fair value. Fair values for reporting units are estimated using discounted cash flow valuation models.

Long-Lived Assets

Long-lived assets primarily include property and equipment and identifiable intangible assets with finite lives. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", these assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or groups of assets may not be recoverable. Recoverability of long-lived assets or groups of assets is assessed based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow

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

analysis. Determining the fair value of long-lived assets includes significant judgment by management, and different judgments could yield different results.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on the straight-line basis over the following estimated useful lives:

Buildings	25 years
Furniture and fixtures	5 to 10 years
Capitalized software	2 to 7 years
Equipment	3 to 7 years

Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining term of the respective lease.

Capitalized Software

The cost of software purchased or developed for internal use is capitalized in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The costs are amortized to expense using the straight line method over an estimated useful life not to exceed seven years. Capitalized software is classified as property and equipment in the consolidated balance sheets.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. State income tax credits are accounted for by the flow-through method.

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. CBIZ determines a valuation allowance based on the analysis of amounts available in the statutory carryback or carryforward periods, consideration of future deductible amounts, and assessment of the consolidated and/or separate company profitability.

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, our fee to the client is fixed or determinable, and collectibility is reasonably assured. These criteria are in accordance with generally accepted accounting principles (GAAP) and SEC Staff Accounting Bulletin No. 104 (SAB 104). CBIZ offers a vast array of products and business services to its clients. Those services are delivered through four practice groups. A description of revenue recognition, as it relates to those groups, is provided below.

Financial Services — Revenue consists primarily of fees for accounting services, preparation of tax returns, consulting services including Sarbanes-Oxley consulting and compliance projects, and valuation services including fairness opinions, business plans, litigation support, purchase price allocations and derivative valuations. Revenues are recorded in the period in which services are provided and meet revenue recognition criteria in accordance with SAB 104. CBIZ bills clients based upon a predetermined agreed-upon fixed fee or based on actual hours incurred on client

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

projects at expected net realizable rates per hour, plus agreed-upon out-of-pocket expenses. The cumulative impact on any subsequent revision in the estimated realizable value of unbilled fees for a particular client project is reflected in the period in which the change becomes known.

Through one of its Financial Services units, CBIZ provides flexible benefits administration services to clients, grants access of its proprietary software to third parties, and provides hosting to these parties. Revenue associated with set up and license fees related to our flexible benefits services are deferred and recognized pro rata over the life of the contract.

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

- Commissions relating to brokerage and agency activities whereby CBIZ has primary responsibility for the collection of premiums from insured's (agency or indirect billing) are recognized as of the latter of the effective date of the insurance policy or the date billed to the customer; commissions to be received directly from insurance companies (direct billing) are recognized when the policy becomes effective; and life insurance commissions are recognized when the policy becomes effective. Commission revenue is reported net of sub-broker commissions, and reserves for estimated policy cancellations and terminations. The cancellation and termination reserve is based upon estimates and assumptions using historical cancellation and termination experience and other current factors to project future experience. CBIZ periodically reviews the adequacy of the reserve and makes adjustments as necessary. The use of different estimates or assumptions could produce different results.
- Commissions which are based upon certain performance targets are recognized at the earlier of written notification that the target has been achieved, or cash collection.
- Fee income is recognized in the period in which services are provided, and may be based on actual hours incurred on an hourly fee basis, fixed fee arrangements, or asset-based fees.
- Payroll— Revenue is recognized when the actual payroll processing occurs.

Medical Management Professionals— Fees for services are primarily based on a percentage of net collections on our clients' patient accounts receivable. As such, revenue is determinable, earned, and recognized, when payments are received by our clients on their patient accounts.

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

- Technology Consulting — Revenue associated with hardware and software sales is recognized upon delivery and acceptance of the product. Revenue associated with installation is recognized as services are performed, and revenue associated with service agreements is recognized on a straight-line basis over the period of the agreement. Consulting revenue is recognized on an hourly or per diem fee basis as services are performed.
- Health Care Consulting— CBIZ bills clients based upon a predetermined agreed-upon fixed fee or based on actual hours incurred on client projects at expected net realizable rates per hour, plus agreed-upon out-of-pocket expenses, or as a percentage of savings after contingencies have been resolved and verified by a third party.

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

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

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

Operating Expenses

Operating expenses represent costs of service, as well as other costs incurred to operate our business units. These costs are primarily personnel related expenses, occupancy expenses, and consolidation and integration related expenses. Personnel costs include base compensation, commissions, payroll taxes, and benefits, which are recognized as expense as they are incurred, and incentive compensation costs which are estimated and accrued on a monthly basis. The ultimate determination of incentive compensation is made after year-end results are finalized, thus estimates are subject to change. Total personnel costs were \$351.9 million, \$316.6 million and \$303.1 million for the years ended December 31, 2005, 2004, and 2003, respectively.

The largest components of occupancy costs are rent expense and utilities. Rent expense is recognized over respective lease terms (see "operating leases" below), and utilities are recognized as incurred. Total occupancy costs were \$35.4 million, \$34.1 million and \$33.5 million for the years ended December 31, 2005, 2004, and 2003, respectively.

Consolidation and integration charges are accounted for in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Accordingly, CBIZ recognizes a liability for non-cancelable lease obligations based upon the net present value of remaining lease payments, net of estimated sublease payments. The liability is determined and recognized as of the cease-use date and adjustments to the liability are made for changes in estimates in the period in which a change becomes known.

Operating Leases

CBIZ leases certain of its office facilities and equipment under various operating leases. Rent expense under such leases is recognized in accordance with SFAS 13, "Accounting for Leases". SFAS 13 requires lessees to record rent expense evenly throughout the term of the lease obligation when the lease commitment is a known amount, but allows for rent expense to be recorded on a cash basis when future rent payments under the obligation are unknown because the rent escalations are tied to factors that are not currently measurable (such as increases in the consumer price index). Differences between rent expense recognized and the cash payments required under operating lease obligations, are recorded in the consolidated balance sheets as other current or non-current liabilities as appropriate.

CBIZ may receive incentives to lease office facilities in certain areas. In accordance with SFAS 13, such incentives are recorded as a deferred credit and recognized as a reduction to rent expense on a straight-line basis over the lease term. Leasehold improvements made at the inception of or during the lease are amortized over the shorter of the asset life or the lease term.

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

Variable Interest Entities

Effective January 1, 2004, CBIZ adopted FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), as amended. In accordance with the provisions of the aforementioned standard, CBIZ has determined that its relationship with certain Certified Public Accounting (CPA) firms with whom we maintain administrative service agreements (ASAs) qualify as variable interest entities. The accompanying financial statements do not reflect the consolidation of the variable interest entities, as the impact is not material to the financial condition, results of operations or cash flows of CBIZ.

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

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

Earnings per Share

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

Stock Based Awards

CBIZ accounts for its employee stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. CBIZ provides pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value-based method had been applied in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Had the cost of stock option plans been determined based on the fair value of options at the grant date, CBIZ's net income and earnings per share pro forma amounts would be as follows (in thousands, except per share data):

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

	As Reported		Pro Forma (1)	
	Basic	Diluted	Basic	Diluted
2005				
Net income	\$ 18,673	\$ 18,673	\$ 17,573	\$ 17,573
Net income per share	\$ 0.25	\$ 0.24	\$ 0.24	\$ 0.23
2004				
Net income	\$ 16,051	\$ 16,051	\$ 14,629	\$ 14,629
Net income per share	\$ 0.20	\$ 0.20	\$ 0.18	\$ 0.18
2003				
Net income	\$ 15,316	\$ 15,316	\$ 14,792	\$ 14,792
Net income per share	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16

(1) A tax rate of 40.0% was applied to the fair value of options in determining pro forma net income for each of the years ended December 31, 2005, 2004 and 2003.

The above results may not be representative of the effects on net income for future years. CBIZ applied the Black-Scholes option-pricing model to determine the fair value of each option granted during the years ended December 31, 2005, 2004 and 2003, using the following weighted-average assumptions:

	2005	2004	2003
Weighted average grant-date fair value of options granted	\$ 1.65	\$ 1.42	\$ 0.95
Risk-free interest rate	3.90%	3.89%	2.36%
Expected volatility	49.71%	36.57%	35.54%
Expected option life (in years)	5.00	5.00	5.00
Dividend yield	0.0%	0.0%	0.0%

Restricted stock awards are independent of option grants, and are granted at no cost to the recipients. The market value of shares awarded is recorded as unearned compensation, and is expensed ratably over the period which restrictions lapse.

Guarantees

CBIZ recognizes a liability for the fair value of obligations undertaken in issuing guarantees, in accordance with the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", as amended (FIN 45). The liability is recognized at the inception of such guarantees, and is recorded as other current liabilities in the consolidated balance sheets.

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

2. Accounts Receivable, Net

Accounts receivable balances at December 31, 2005 and 2004 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Trade accounts receivable	\$ 83,122	\$ 80,328
Unbilled revenue	19,264	21,063
Other accounts receivable	1,717	2,611
Total accounts receivable	104,103	104,002
Allowance for doubtful accounts	(5,713)	(5,847)
Accounts receivable, net	<u>\$ 98,390</u>	<u>\$ 98,155</u>

3. Notes Receivable

Notes receivable balances at December 31, 2005 and 2004 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Current		
Notes in lieu of cash as consideration for the sale of operations	\$ 5,378	\$ 1,125
Other	664	252
Total notes receivable — current	6,042	1,377
Non-Current		
Notes in lieu of cash as consideration for the sale of operations	1,215	2,169
Other	2,360	2,557
Total notes receivable — non-current	3,575	4,726
Notes receivable	<u>\$ 9,617</u>	<u>\$ 6,103</u>

4. Property and Equipment, Net

Property and equipment, net at December 31, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Buildings and leasehold improvements	\$ 12,783	\$ 12,445
Furniture and fixtures	17,951	16,064
Capitalized software	41,872	39,682
Equipment	28,376	28,811
Total property and equipment	100,982	97,002
Accumulated depreciation and amortization	(67,579)	(61,069)
Property and equipment, net	<u>\$ 33,403</u>	<u>\$ 35,933</u>

Depreciation and amortization expense was approximately \$11.2 million, \$12.1 million, and \$13.1 million during the years ended December 31, 2005, 2004 and 2003, respectively, of which \$6.3 million, \$5.6 million and \$5.5 million represented the amortization of capitalized software.

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

5. Goodwill and Other Intangible Assets, Net

The components of goodwill and other intangible assets, net at December 31, 2005 and 2004 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Goodwill	\$168,040	\$158,945
Intangibles:		
Client lists	23,498	18,033
Other intangibles	1,493	972
Total intangibles	<u>24,991</u>	<u>19,005</u>
Total goodwill and other intangibles assets	193,031	177,950
Less accumulated amortization	<u>(8,358)</u>	<u>(6,168)</u>
Goodwill and other intangible assets, net	<u>\$184,673</u>	<u>\$171,782</u>

Client lists are amortized over periods not exceeding ten years. Other intangibles, which consist primarily of non-compete agreements, are amortized over periods ranging from two to ten years. Amortization expense (excluding impairment charges as described below) of client lists and other intangible assets was approximately \$2.6 million, \$1.8 million and \$1.5 million during the years ended December 31, 2005, 2004 and 2003, respectively. Amortization expense for client lists and other intangible assets for each of the next five years is estimated to be (in thousands):

<u>Year ended December 31,</u>	
2006	<u>\$ 2,541</u>
2007	<u>\$ 2,444</u>
2008	<u>\$ 2,205</u>
2009	<u>\$ 2,101</u>
2010	<u>\$ 1,859</u>

This estimate excludes the impact of events that may occur subsequent to December 31, 2005, including acquisitions, divestitures and additional purchase price that may be earned in connection with acquisitions that occurred prior to December 31, 2005.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", CBIZ recorded non-cash pre-tax impairment charges of \$0.2 million and \$0.3 million during the years ended December 31, 2004 and 2003, respectively. The impairment charges are reported as depreciation and amortization expense in the accompanying consolidated statements of operations and relate to client lists from our Financial Services, and Employee Services practice groups that were purchased in 2000 and 1999, respectively. There were no impairment charges recorded during the year ended December 31, 2005.

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

Changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2005 and 2004 were as follows (in thousands):

	Financial Services	Employee Services	Medical Management Professionals	National Practices	Total Goodwill
December 31, 2003	\$94,862	\$44,879	\$ 17,212	\$ —	\$156,953
Additions	772	628	—	1,219	2,619
Divestitures	(627)	—	—	—	(627)
December 31, 2004	95,007	45,507	17,212	1,219	158,945
Additions	4,975	3,643	—	477	9,095
Divestitures	—	—	—	—	—
December 31, 2005	<u>\$99,982</u>	<u>\$49,150</u>	<u>\$ 17,212</u>	<u>\$ 1,696</u>	<u>\$168,040</u>

6. Income Taxes

Income tax expense (benefit) included in the consolidated statements of operations for the years ended December 31, 2005, 2004, and 2003 was as follows (in thousands):

	2005	2004	2003
Continuing operations:			
Current:			
Federal	\$ 16,370	\$ 9,816	\$ 8,100
Foreign	(58)	—	—
State and local	640	1,744	1,921
Total current income tax expense from continuing operations	16,952	11,560	10,021
Deferred:			
Federal	(1,755)	(2,867)	1,893
Foreign	—	32	102
State and local	(672)	(780)	(202)
Total deferred income tax expense from continuing operations	(2,427)	(3,615)	1,793
Total income tax expense continuing operations	14,525	7,945	11,814
Operations of discontinued operations	(3,749)	(2,673)	(227)
Gain on sale of discontinued operations	2,085	266	731
Total income tax expense	<u>\$ 12,861</u>	<u>\$ 5,538</u>	<u>\$12,318</u>

The provision for income taxes attributable to earnings from continuing operations differed from the amount obtained by applying the federal statutory income tax rate to income from continuing operations before income taxes, as follows (in thousands, except percentages):

	2005	2004	2003
Tax at statutory rate	\$12,612	\$10,194	\$ 9,435
State taxes (net of federal benefit)	1,400	1,438	1,712
Tax credit carryforwards	(293)	(280)	(3,882)
Change in valuation allowance	(250)	(276)	4,555
Settlement of IRS examination 1998-2000	—	(3,550)	640
Non-deductible goodwill related to divested businesses	—	133	(361)
Business meals and entertainment – non-deductible	539	660	594
Other, net	517	(374)	(879)
Provision for income taxes from continuing operations	<u>\$14,525</u>	<u>\$ 7,945</u>	<u>\$11,814</u>
Effective income tax rate	<u>40.3%</u>	<u>27.3%</u>	<u>43.8%</u>

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

The net change in the valuation allowance for the year ended December 31, 2005 was primarily due to changes in the valuation allowances for state tax credit carryforwards, capital losses realized in excess of capital gains, and NOL carryforwards. The net change in the valuation allowance for the year ended December 31, 2004 was primarily due to changes in the valuation of NOL carryforwards. The net change in the valuation allowance for the year ended December 31, 2003 was due to increases in valuation allowances for NOL carryforwards, state tax credit carryforwards, and asset impairment charges, offset by a decrease in the valuation allowance for state deferred taxes related to an impairment of tax deductible goodwill.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities from continuing operations at December 31, 2005 and 2004, were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Deferred Tax Assets:		
Net operating loss carryforwards	\$ 5,717	\$ 6,164
Allowance for doubtful accounts	1,525	2,307
Employee benefits and compensation	5,625	3,452
Cumulative change in accounting principle (SAB 101)	2,588	2,810
Lease costs	2,356	1,139
Goodwill and other intangibles	257	413
State tax credit carryforwards	3,848	3,782
Excess capital losses over capital gains	1,952	1,426
Other deferred tax assets	473	515
Total gross deferred tax assets	<u>24,341</u>	<u>22,008</u>
Less: valuation allowance	<u>(8,033)</u>	<u>(8,283)</u>
Net deferred tax assets	<u>16,308</u>	<u>13,725</u>
Deferred Tax Liabilities:		
Property and equipment depreciation	1,829	3,388
Other deferred tax liabilities	2,039	(665)
Total gross deferred tax liabilities	<u>3,868</u>	<u>2,723</u>
Net deferred tax asset	<u>\$ 12,440</u>	<u>\$ 11,002</u>

During the fourth quarter of 2004, the Internal Revenue Service (IRS) made a final determination relative to its examination of CBIZ's federal income tax returns for the years ended December 31, 1998, 1999, and 2000. The IRS agreed with CBIZ's favorable tax position, which resulted in an income tax refund of \$4.0 million for the years under examination. At December 31, 2004, this amount was recorded as income taxes recoverable in the accompanying consolidated balance sheet. CBIZ also recorded a deferred tax liability of \$1.3 million, and reversed an accrual for income taxes payable of \$0.8 million related to the audit results. These items resulted in a net tax benefit of \$3.5 million during the year ended December 31, 2004. The tax refund was received in February 2005.

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

Net operating loss (NOL) carryforwards for continuing operations at December 31, 2005 and 2004 were as follows (in thousands):

	NOL Carryforwards		Deferred Tax Benefit		Expiration Dates
	2005	2004	2005	2004	
U.S. NOLs	\$ 1,538	\$ 1,940	\$ 538	\$ 679	2008
Canadian NOLs	\$ 4,361	\$ 4,315	1,744	1,726	2006
State NOLs	\$ 73,291	\$ 70,404	3,435	3,762	Various
Total NOLs			5,717	6,167	
NOL valuation allowances			(4,805)	(4,436)	
Net NOLs			<u>\$ 912</u>	<u>\$ 1,731</u>	

The availability of NOL's is reported as deferred tax assets, net of applicable valuation allowances, in the accompanying consolidated balance sheets. CBIZ established valuation allowances for portions of the U.S., Canadian and state NOL carryforwards, state income tax credit carryforwards, and for capital losses realized in excess of capital gains.

7. Bank Debt

Bank debt balances for the years ended December 31, 2005 and 2004 were as follows (in thousands, except percentages):

	2005	2004
Revolving credit facility	\$ 32,200	\$ 53,900
Weighted average rates	5.39%	3.54%
Range of effective rates	3.94% - 7.25%	2.98% - 5.25%

During 2005, CBIZ maintained a \$100.0 million credit facility with Bank of America as agent bank for a group of five participating banks. The credit facility had an option to increase the commitment to \$125.0 million and was secured by substantially all assets of CBIZ, as well as the capital stock of its subsidiaries. The credit facility included a letter of credit sub-facility, allowing CBIZ to issue letters of credit up to \$20.0 million. See Note 9 for further discussion regarding letters of credit. Management believes that the carrying amount of bank debt approximates its fair value, and CBIZ had approximately \$54.1 million of available funds under the facility at December 31, 2005.

The credit facility provides CBIZ operating flexibility and funding to support seasonal working capital needs and other strategic initiatives such as acquisitions and share repurchases. Under the facility, loans are charged an interest rate consisting of a base rate or Eurodollar rate plus an applicable margin. Additionally, a commitment fee of 30 to 45 basis points is charged on the unused portion of the facility.

The facility is subject to certain financial covenants that may limit CBIZ's ability to borrow up to the total commitment amount. Covenants require CBIZ to meet certain requirements with respect to (i) minimum net worth; (ii) maximum leverage ratio; and (iii) a minimum fixed charge coverage ratio. Limitations are also placed on CBIZ's ability to acquire businesses, repurchase CBIZ common stock and to divest operations.

The bank agreement also places restrictions on CBIZ's ability to create liens or other encumbrances, to make certain payments, investments, loans and guarantees and to sell or otherwise dispose of a substantial portion of assets, or to merge or consolidate with an unaffiliated entity. According to the terms of the agreement, CBIZ is not permitted to declare or

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

make any dividend payments, other than dividend payments made by one of its wholly owned subsidiaries to the parent company. The agreement contains a provision that, in the event of a defined change in control, the agreement may be terminated.

Effective February 13, 2006, CBIZ entered into a new \$100 million unsecured credit facility, which replaced the previous facility. The new facility has an option to increase the commitment to \$150 million, is maintained by Bank of America, N.A. as agent bank for a group of five participating banks, and has a five year term expiring February 2011. Interest and commitment fees for the new facility are determined in a manner consistent with the previous facility, although the applicable margin and commitment fee percentages have been reduced. In addition, the maximum leverage ratio has been increased, and limitations on share repurchases and acquisitions have been removed provided that the leverage ratio (total debt compared to EBITDA as defined by the facility) is less than 2.0.

8. Lease Commitments

Operating Leases

CBIZ leases certain of its office facilities and equipment under various operating leases. Future minimum cash commitments under operating leases as of December 31, 2005 were as follows (in thousands):

Years Ended December 31,	Gross Operating Lease Commitments (1)	Subleases(1),(2)	Net Operating Lease Commitments(1)
2006	\$ 37,003	\$ 1,730	\$ 35,273
2007	31,041	1,611	29,430
2008	27,215	1,294	25,921
2009	22,360	948	21,412
2010	19,584	652	18,932
Thereafter	66,475	370	66,105
Total	<u>\$ 203,678</u>	<u>\$ 6,605</u>	<u>\$ 197,073</u>

(1) Includes lease commitments accrued in the consolidation and integration reserve as of December 31, 2005.

(2) A substantial portion of the sub-leases relate to restructuring lease obligations and are reflected in consolidation and integration charges as further described in Notes 1 and 10.

Rent expense for continuing operations (excluding consolidation and integration charges) incurred under operating leases was \$32.0 million, \$30.8 million, and \$29.2 million for the years ended December 31, 2005, 2004 and 2003, respectively. Rent expense does not necessarily reflect cash payments, as further described under "Operating Leases" in Note 1.

Capital Leases

CBIZ leases furniture and fixtures for certain office facilities under various capital lease agreements. Property acquired under capital lease agreements and recorded as property and equipment, net in the consolidated balance sheets at December 31, 2005 and 2004 was as follows (in thousands):

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

	2005	2004
Furniture and fixtures	\$ 2,715	\$ 2,031
Accumulated depreciation	(588)	(321)
Furniture and fixtures, net	<u>\$ 2,127</u>	<u>\$ 1,710</u>

Depreciation of equipment acquired under capital lease agreements is recorded as depreciation and amortization expense in the consolidated statements of operations.

At December 31, 2005 and 2004, current capital lease obligations totaled \$0.6 million and \$0.4 million and non-current capital lease obligations totaled \$1.0 million and \$1.2 million, respectively. These obligations are recorded as other current and other non-current liabilities in the accompanying consolidated balance sheets, as appropriate. Future minimum lease payments under capital leases and the present value of such payments at December 31, 2005 were as follows (in thousands):

<u>Years ended December 31,</u>	
2006	\$ 706
2007	577
2008	467
2009	91
2010	—
Thereafter	—
Total minimum lease payments	1,841
Less imputed interest	(192)
Present value of minimum lease payments	<u>\$ 1,649</u>

9. Commitments and Contingencies

Acquisitions

The purchase price that CBIZ pays for businesses and client lists generally consist of two components: an up-front non-contingent portion, and a portion which is contingent upon the acquired businesses or client lists actual future performance. Non-contingent purchase price is recorded at the date of acquisition and contingent purchase price is recorded as it is earned. Acquisitions are further disclosed in Note 17.

Indemnifications

CBIZ has various agreements in which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations, warranties, covenants or agreements, related to matters such as title to assets sold and certain tax matters. Payment by CBIZ under such indemnification clauses are generally conditioned upon the other party making a claim. Such claims are typically subject to challenge by CBIZ and to dispute resolution procedures specified in the particular contract. Further, CBIZ's obligations under these agreements may be limited in terms of time and/or amount and, in some instances, CBIZ may have recourse against third parties for certain payments made by CBIZ. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of CBIZ's obligations and the unique facts of each particular agreement. Historically, CBIZ has not made any payments under these agreements that have been material individually or in the aggregate. As of December 31, 2005, CBIZ was not aware of any obligations arising under indemnification agreements that would require material payments.

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

Employment Agreements

CBIZ maintains severance and employment agreements with certain of its executive officers, whereby such officers may be entitled to payment in the event of termination of their employment. CBIZ also has arrangements with certain non-executive employees which may include severance and other employment provisions. CBIZ accrues for amounts payable under these contracts and arrangements as triggering events occur and obligations become known. During the years ended December 31, 2005, 2004 and 2003, payments regarding such contracts and arrangements have not been material.

Letters of Credit and Guarantees

CBIZ provides letters of credit to landlords (lessors) of its leased premises in lieu of cash security deposits, which totaled \$2.0 million and \$2.9 million at December 31, 2005 and 2004, respectively. In addition, CBIZ provides bonds to various state agencies to meet certain licensing requirements. The amount of bonds outstanding at December 31, 2005 and 2004 was \$1.2 million and \$1.6 million, respectively.

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 \$1.3 million at December 31, 2005 and 2004, respectively. In accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", as amended, CBIZ has recognized a liability for the fair value of the obligations undertaken in issuing these guarantees, which is recorded as other current liabilities in the accompanying consolidated balance sheets. Management does not expect any material changes to result from these instruments as performance under the guarantees is not expected to be required.

Legal Proceedings

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

10. Consolidation and Integration Reserve

Consolidation and integration charges are comprised of expenses associated with CBIZ's on-going efforts to consolidate operations and locations in fragmented markets to promote and strengthen cross-serving between various practice groups. These expenses result from individual actions in several markets and are not part of one company-wide program.

Consolidation and integration charges include costs for moving facilities, non-cancelable lease obligations, adjustments to lease accruals based on changes in sublease assumptions, severance obligations, and other related expenses. Significant consolidation and integration initiatives during 2005 included the consolidation of offices in the Denver market and the continuation of consolidation activities in the Chicago market, resulting in \$0.5 million and \$1.3 million in consolidation and integration charges during the twelve months ended December 31, 2005, respectively. During 2004, CBIZ incurred consolidation and integration charges of approximately \$1.0 million related to real estate leasing costs in the Chicago market. Other consolidation and integration initiatives during 2004 were individually insignificant. During 2003, CBIZ initiated the consolidation of offices in Orange County, California, and Cleveland, Ohio, which resulted in \$0.5 million of costs for non-cancelable lease obligations and moving expenses. In addition, CBIZ continued the consolidation in the Kansas City market, which was initiated in 2002.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Consolidation and integration reserve balances at December 31, 2005, 2004 and 2003, and activity during the years ended December 31, 2005 and 2004 were as follows (in thousands):

	Consolidation and Integration Reserve
Reserve balance at December 31, 2003	\$ 4,857
Adjustments against income(1)	2,502
Payments(2)	<u>(3,949)</u>
Reserve balance at December 31, 2004	3,410
Adjustments against income (1)	3,598
Payments (2)	<u>(3,905)</u>
Reserve balance at December 31, 2005	<u>\$ 3,103</u>

(1) Adjustments against income are included in operating expenses in the accompanying consolidated statements of operations.

(2) Payments are net of sub-lease payments received.

Consolidation and integration charges incurred during the years ended December 31, 2005, 2004 and 2003, and recorded as operating expenses in the accompanying consolidated statements of operations were as follows (in thousands):

	2005	2004	2003
Severance expense	\$ 93	\$ —	\$ 293
Lease consolidation and abandonment	3,598	2,502	1,086
Other consolidation charges	—	248	506
Total consolidation and integration charges	<u>\$ 3,691</u>	<u>\$ 2,750</u>	<u>\$ 1,885</u>

11. Employee Benefits

Employee Savings Plan

CBIZ sponsors a qualified 401(k) defined contribution plan that covers substantially all of its employees. Participating employees may elect to contribute, on a tax-deferred basis, up to 80% of their pre-tax annual compensation (subject to a maximum permissible contribution under Section 401(k) of the Internal Revenue Code). Matching contributions by CBIZ are 50% of the first 6% of base compensation that the participant contributes, and additional amounts may be contributed at the discretion of the Board of Directors. Participants may elect to invest their contributions in various funds, including: stock; fixed income; stable value; and balanced – lifecycle funds. Employer contributions (net of forfeitures) made to the plan during the years ended December 31, 2005, 2004 and 2003, were approximately \$5.0 million, \$5.2 million, and \$5.1 million, respectively.

Deferred Compensation Plan

CBIZ implemented a deferred compensation plan during the first quarter of 2004, under which certain members of management and other highly compensated employees may elect to defer receipt of a portion of their annual compensation, subject to maximum and minimum percentage limitations. The amount of compensation deferred under the plan is credited to each participant's deferral account and a deferred compensation plan obligation is established by CBIZ. An amount equaling each participant's compensation deferral is transferred into a rabbi trust and invested in various debt and equity securities as directed by the participants. The assets of the rabbi trust are

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

held by CBIZ and recorded as assets of deferred compensation plan in the accompanying consolidated balance sheets.

Assets of the deferred compensation plan consist primarily of investments in mutual funds, money market funds and equity securities. The values of these investments are based on published market quotes at the end of the period. Adjustments to the fair value of these investments are recorded as other income (expense), offset by adjustments to compensation expense in the consolidated statements of operations, and were approximately \$0.6 million and \$0.4 million for the years ended December 31, 2005 and 2004, respectively. These investments are specifically designated as available to CBIZ solely for the purpose of paying benefits under the deferred compensation plan. However, in the event that CBIZ became insolvent, the investments would be available to all unsecured general creditors.

The deferred compensation plan obligation represents amounts due to participants of the plan, and consist of accumulated participant deferrals and earnings thereon since the inception of the plan, net of withdrawals. This liability is an unsecured general obligation of CBIZ, and is recorded as deferred compensation plan obligations in the accompanying consolidated balance sheets.

12. Common Stock

CBIZ's authorized common stock consists of 250 million shares of common stock, par value \$0.01 per share (Common Stock). The holders of CBIZ's Common Stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. There are no cumulative voting rights with respect to the election of directors. Accordingly, the holder or holders of a majority of the outstanding shares of Common Stock will be able to elect the directors of CBIZ then standing for election as terms expire. Holders of Common Stock have no preemptive rights and are entitled to such dividends as may be declared by the Board of Directors of CBIZ out of funds legally available therefore. The Common Stock is not entitled to any sinking fund, redemption or conversion provisions. On liquidation, dissolution or winding up of CBIZ, the holders of Common Stock are entitled to share ratably in the net assets of CBIZ remaining after the payment of any and all creditors. The outstanding shares of Common Stock are duly authorized, validly issued, fully paid and non-assessable. The transfer agent and registrar for the Common Stock is Computershare Investor Services, LLC.

CBIZ completes registration filings related to its Common Stock to register shares under the Securities Act of 1933. CBIZ has filed an effective registration statement with the SEC to register the sale of up to 15 million shares of common stock that may be offered from time to time in connection with acquisitions.

Treasury Stock

In February 2005, CBIZ's Board of Directors authorized the share repurchase of up to 5.0 million shares of CBIZ common stock. During the year ended December 31, 2005, CBIZ repurchased approximately 3.8 million shares of its common stock in the open market, at an aggregate purchase price of approximately \$16.7 million. The repurchase plan expired December 31, 2005.

In March 2004, CBIZ's Board of Directors authorized share repurchases of up to 8.5 million shares of CBIZ common stock. A supplement to the plan was approved by the Board of Directors in May 2004, authorizing CBIZ to purchase an additional 2.0 million shares of CBIZ common stock, for a total of 10.5 million shares. In April 2004, CBIZ completed a tender offer that resulted in the purchase of approximately 7.5 million shares of CBIZ common stock at a purchase price of \$5.00 per share, or a total cost (including legal and other direct expenses) of approximately \$37.8 million. During the year ended December 31, 2004, CBIZ also repurchased approximately 2.9 million shares of its common stock in the open market, at an aggregate purchase price of approximately \$12.6 million. The repurchase plan expired December 31, 2004.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In June 2003, CBIZ's Board of Directors authorized a share repurchase of up to 15.0 million shares of CBIZ common stock (not to exceed \$52.5 million). In July 2003, CBIZ completed a modified Dutch Auction tender offer which resulted in the purchase of approximately 10.0 million shares of CBIZ common stock at a purchase price of \$3.30 per share, or a total cost (including legal and other direct expenses) of approximately \$33.2 million. During the year ended December 31, 2003, CBIZ also repurchased 104,000 shares of its common stock in the open market, at an aggregate purchase price of approximately \$0.4 million. The repurchase plan expired December 31, 2003.

Repurchased shares are held in treasury, and may be reserved for future use in connection with acquisitions, employee share plans and other general purposes. The repurchase plans allow CBIZ to purchase shares through the open market or through privately negotiated purchases. The repurchase programs do not obligate CBIZ to acquire any specific number of shares and may be suspended at any time. During 2005, repurchases were subject to annual dollar and financial ratio limitations under the credit facility. At December 31, 2005, CBIZ believes it was in compliance with this covenant.

13. Employee Share Plans

Employee Stock Investment Plan

Effective June 1, 2001, CBIZ established the Employee Stock Investment Plan which provides CBIZ employees with a method of purchasing shares of CBIZ's common stock. Participation in the plan is open to all CBIZ employees whose payroll is processed by the designated CBIZ payroll provider. CBIZ assumes all administrative expenses for the plan, and pays all opening and transaction charges related to the enrollment and purchase of stock, other than fees that participants are required to pay upon the sale of the shares. CBIZ does not provide a discount to employees for the purchase of CBIZ common stock.

Participants may also purchase shares of CBIZ stock by making optional cash investments in accordance with the provisions of the plan. Shares of CBIZ stock purchased by participants in the plan may be treasury or new issue stock, or at CBIZ's option, CBIZ stock purchased in the open market or negotiated transactions. Treasury or new issue stock is purchased from CBIZ at the market price on the applicable investment date. The price of CBIZ stock purchased in the open market or in negotiated transactions is the weighted average price at which the shares are actually purchased.

Stock Options

CBIZ's outstanding stock options have been granted pursuant to two plans: The 1996 Employee Stock Option Plan, and the 2002 Stock Incentive Plan. The 2002 Stock Incentive Plan is an amendment and restatement of the 1996 Employee Stock Option Plan. Under the 2002 Stock Incentive Plan, a maximum of 15.0 million stock options, restricted stock or other stock based compensation awards may be awarded, which number shall include those shares that are available for grant under the prior plan. Under the 1996 Employee Stock Option Plan a maximum of 15.0 million shares were available to be awarded.

Stock options awarded under the 1996 Employee Stock Option Plan and The 2002 Stock Incentive Plan, are generally subject to a 20% incremental vesting schedule over a five-year period commencing from the date of grant. The options are awarded at a price not less than fair market value at the time of the award and expire six years from the date of grant. At the discretion of the Compensation Committee of the Board of Directors, options awarded under the plans may vest immediately or in a time period shorter than five years. Under each of the plans, stock options awarded to non-employee directors have generally been granted with immediate vesting. In addition, certain members of executive management have been granted stock options with vesting terms of shorter than five years.

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Stock options may be granted alone or in addition to other awards and may be of two types: incentive stock options and nonqualified stock options. In the event the optionee of an incentive stock option owns, 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 CBIZ, the option price shall not be less than 110% of such fair market value.

Total shares available for future grant under the plan were approximately 5.3 million, 5.3 million and 4.4 million at December 31, 2005, 2004 and 2003, respectively.

Stock option activity during the years ended December 31, 2005, 2004 and 2003 was as follows (in thousands, except per share data):

	2005		2004		2003	
	Number of Options	Weighted Average Exercise Price Per Share	Number of Options	Weighted Average Exercise Price Per Share	Number of Options	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	8,523	\$ 3.32	10,155	\$ 4.58	10,952	\$ 4.81
Granted	468	\$ 3.45	473	\$ 4.31	558	\$ 3.12
Exercised	(1,658)	\$ 2.52	(519)	\$ 2.60	(375)	\$ 2.47
Expired or canceled	(530)	\$ 13.36	(1,586)	\$ 11.98	(980)	\$ 7.19
Outstanding at end of year	<u>6,803</u>	\$ 2.72	<u>8,523</u>	\$ 3.32	<u>10,155</u>	\$ 4.58
Exercisable at end of year	<u>4,551</u>	\$ 2.47	<u>5,390</u>	\$ 3.46	<u>5,764</u>	\$ 5.64

The table below provides information about stock options outstanding and exercisable at December 31, 2005 (in thousands, except per share data):

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number of Options	Weighted Average Exercise Price Per Share
\$5.01 - \$8.44	36	0.0	\$ 8.44	36	\$ 8.44
\$3.00 - \$5.00	3,698	2.4	\$ 3.56	2,007	\$ 3.50
\$1.13 - \$2.99	3,069	1.4	\$ 1.63	2,508	\$ 1.55
Total	<u>6,803</u>	1.9	\$ 2.72	<u>4,551</u>	\$ 2.47

Restricted Stock Awards

Under the 2002 Stock Incentive Plan (described above), certain employees and non-employee directors were granted restricted stock awards. Restricted stock awards are independent of option grants, and are granted at no cost to the recipients. The awards are subject to forfeiture if employment terminates prior to the release of restrictions, generally one to five years from the date of grant. Recipients of restricted stock awards are entitled to the same dividend and voting rights as holders of other CBIZ common stock and the awards are considered to be issued and outstanding from the date of grant. However, shares granted under the plan cannot be sold, pledged, transferred or assigned during the vesting period.

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Restricted stock award activity during the years ended December 31, 2005 and 2004 was as follows (in thousands, except per share data):

	2005		2004	
	Number of Shares	Weighted Average Price Per Share(1)	Number of Shares	Weighted Average Price Per Share (1)
Outstanding at beginning of year	119	\$ 4.35	—	—
Granted	128	\$ 3.56	119	\$ 4.35
Vested and released from restrictions	(11)	\$ 4.58	—	—
Forfeited	—	—	—	—
Outstanding at end of year	<u>236</u>	<u>\$ 3.91</u>	<u>119</u>	<u>\$ 4.35</u>

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

The market value of shares awarded during 2005 and 2004 was \$0.5 million and \$0.5 million, respectively. This market value was recorded as unearned compensation and is being expensed ratably over the periods which the restrictions lapse. Compensation expense recognized for restricted stock awards amounted to \$0.2 million and \$0.1 million during the years ended December 31, 2005 and 2004, respectively. Awards outstanding at December 31, 2005 will be released from restrictions at dates ranging from February 2006 through April 2010.

14. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Year Ended December 31,		
	2005	2004	2003
Numerator:			
Net income	<u>\$ 18,673</u>	<u>\$ 16,051</u>	<u>\$ 15,316</u>
Denominator:			
Basic			
Weighted average common shares	<u>74,448</u>	<u>79,217</u>	<u>90,400</u>
Diluted			
Options (1)	2,169	2,240	2,362
Restricted stock awards	52	18	—
Contingent shares(2)	158	2	—
Total diluted weighted average common shares	<u>76,827</u>	<u>81,477</u>	<u>92,762</u>
Basic net income per share	<u>\$ 0.25</u>	<u>\$ 0.20</u>	<u>\$ 0.17</u>
Diluted net income per share	<u>\$ 0.24</u>	<u>\$ 0.20</u>	<u>\$ 0.17</u>

(1) For the years ended December 31, 2005, 2004 and 2003, a total of 36, 548, and 4,039 options, respectively, were excluded from the calculation of diluted earnings per share as their exercise price would render them anti-dilutive.

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- (2) Contingent shares represent additional purchase price earned by businesses acquired by CBIZ that will not be issued until future conditions have been met. See further discussion of acquisitions in Note 17.

15. Supplemental Cash Flow Disclosures

Cash paid (received) for interest and income taxes during the years ended December 31, 2005, 2004 and 2003 was as follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest	<u>\$ 3,134</u>	<u>\$ 1,342</u>	<u>\$ 1,045</u>
Income taxes	<u>\$ 6,112</u>	<u>\$ 14,675</u>	<u>\$ (2,262)</u>

Supplemental Disclosures of Non-Cash Investing and Financing Activities

Non-cash investing and financing activities during the years ended December 31, 2005, 2004 and 2003 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Property and equipment acquired under capital lease obligations	<u>\$ 407</u>	<u>\$ 1,857</u>	<u>\$ —</u>
Business acquisitions, including contingent consideration earned	<u>\$ 3,712</u>	<u>\$ 2,033</u>	<u>\$ 4,036</u>
Non-cash proceeds from divested operations	<u>\$ 201</u>	<u>\$ 1,865</u>	<u>\$ 207</u>
Non-cash proceeds from discontinued operations	<u>\$ 4,569</u>	<u>\$ 530</u>	<u>\$ 494</u>

Non-cash consideration paid for business acquisitions and proceeds received from divested operations were generally in the form of notes receivable, notes payable and CBIZ common stock.

16. Related Parties

The following is a summary of certain agreements and transactions between or among CBIZ and certain related parties. It is CBIZ's policy to enter into transactions with related parties on terms that, on the whole, are no less favorable than those that would be available from unaffiliated parties. Based on CBIZ's experience and the terms of its transactions with unaffiliated parties, it is the Audit Committee of the Board of Directors' and managements' belief that the transactions described below met these standards at the time of the transactions.

A number of the businesses acquired by CBIZ are located in properties owned indirectly by and leased from persons employed by CBIZ. In the aggregate, CBIZ paid approximately \$1.3 million, \$1.3 million, and \$1.4 million for the years ended 2005, 2004 and 2003, respectively, under such leases which management believes were at market rates.

Rick L. Burdick, a director of CBIZ, is a partner of Akin Gump Strauss Hauer & Feld LLP (Akin, Gump). Akin, Gump performed legal work for CBIZ during 2005, 2004 and 2003 for which the firm received approximately \$0.1 million, \$0.2 million, and \$0.2 million from CBIZ, respectively.

Robert A. O'Byrne, a Senior Vice President, has an interest in a partnership that receives commissions from CBIZ that are paid to certain eligible benefits and insurance producers in accordance with a formal program to provide benefits in the event of death, disability, retirement or other termination. The program was in existence at the time CBIZ acquired the former company, of which Mr. O'Byrne was an owner. The partnership received approximately \$0.3 million, \$0.3 million, and \$0.4 million from CBIZ, during the years ended December 31, 2005, 2004 and 2003, respectively.

CBIZ, INC. AND SUBSIDIARIES
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CBIZ maintains joint-referral relationships and administrative service agreements with independent licensed CPA firms under which CBIZ provides administrative services in exchange for a fee. These firms are owned by licensed CPAs who are employed by CBIZ subsidiaries, and provide audit and attest services to clients including CBIZ's clients. The CPA firms with which CBIZ maintains service agreements operate as limited liability companies, limited liability partnerships or professional corporations. The firms are separate legal entities with separate governing bodies and officers. CBIZ has no ownership interest in any of these CPA firms, and neither the existence of the administrative service agreements nor the providing of services thereunder is intended to constitute control of the CPA firms by CBIZ. CBIZ and the CPA firms maintain their own respective liability and risk of loss in connection with performance of each of its respective services, and CBIZ does not believe that its arrangements with these CPA firms result in additional risk of loss.

Although the service agreements do not constitute control, CBIZ is one of the beneficiaries of the agreements and may bear certain economic risks. As such, the CPA firms with which CBIZ maintains administrative service agreements may qualify as variable interest entities under FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities", as amended. The impact to CBIZ of this accounting pronouncement is discussed in the Note 1.

CBIZ acted as guarantor for letters of credit for a CPA firm with which it has an affiliation. The letters of credit total \$2.4 million and \$1.3 million as of December 31, 2005, and December 31, 2004, respectively. In accordance with FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" and its amendments, 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 financial statements. Management does not expect any material changes to result from these instruments as performance is not expected to be required.

In 2003, CBIZ executed a note receivable with a CPA firm whose partner group has since joined MHM P.C., a CPA firm with which CBIZ maintains an administrative services agreement. The balance on the note at December 31, 2005 and 2004 was approximately \$0.1 million and \$0.2 million, respectively.

In an effort to rationalize the business, CBIZ has divested of several operations that were underperforming, located in secondary markets or did not provide the level of synergistic cross-serving opportunities with other CBIZ businesses that is desired. In accordance with this strategy, CBIZ has sold and may sell in the future businesses to former employees or shareholders. Management believes that past transactions were priced at market rates, competitively bid, and entered into at arm's length terms and conditions.

17. Acquisitions

During the year ended December 31, 2005, CBIZ acquired three business operations consisting of: a registered investment firm in Cleveland, Ohio which complements the Employee Services practice; and an accounting and consulting practice in San Diego, California and a valuation business in Milwaukee, Wisconsin which are reported as part of the Financial Services practice group. In addition, CBIZ acquired the client lists of an accounting and consulting practice in Philadelphia, Pennsylvania and of a benefits and insurance practice in Charlotte, North Carolina, which are reported as part of the Financial Services and Employee Services practice groups, respectively. Aggregate consideration for the acquisitions consisted of approximately \$6.6 million cash, \$0.4 million in notes and approximately 45,000 shares of restricted common stock (estimated stock value of \$0.2 million at acquisition) paid at closing, and up to an additional \$13.2 million (payable in cash and stock) which is contingent on the businesses meeting certain future revenue or earnings targets.

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

During the year ended December 31, 2004, CBIZ completed acquisitions of benefits and insurance firms in Chicago, Illinois, and Owing Mills, Maryland which complement the Employee Services practice group, as well as an accounting tax and advisory firm in Denver, Colorado, and a technology firm in Cleveland, Ohio which are reported as part of the Financial Services and National Practices segments, respectively. Aggregate consideration for the acquisitions consisted of approximately \$3.7 million cash and approximately 215,500 shares of restricted common stock (estimated stock value of \$1.0 million at acquisition) paid at closing, and up to an additional \$8.0 million (payable in cash and stock) which is contingent on the businesses meeting certain future revenue and earnings targets.

In addition to the businesses acquired during 2004, CBIZ purchased three client lists which complement the Employee Services and National Practices segments. The purchase price for these client lists is primarily dependent upon future results, and is not expected to be material individually or in the aggregate.

During the year ended December 31, 2003, CBIZ completed the acquisition of benefits and insurance firms in Boca Raton, Florida and Salt Lake City, Utah which are reported as part of the Employee Services practice group, as well as accounting, tax and advisory firms in Orange County, California and Stamford, Connecticut which are reported as part of the Financial Services practice group. In addition to the acquisitions of these businesses, CBIZ purchased the client lists of four benefits agencies which complement the Employee Services practice. The aggregate purchase price of these acquisitions and client lists was approximately \$11.2 million, comprised of \$2.8 million in cash and 177,000 shares of restricted common stock (estimated stock value of \$0.3 million at acquisition) paid at closing, \$2.1 million of notes contributed, and up to an additional \$6.0 million payable in cash which is contingent on the businesses meeting certain future revenue targets.

The operating results of these firms have been included in the accompanying consolidated financial statements since the dates of acquisition. Pro forma information has not been provided as the impact was not material to the financial condition, results of operations or cash flows of CBIZ. Client lists and non-compete agreements were recorded at fair value at the time of acquisition. The excess of purchase price over the fair value of net assets acquired, (including client lists and non-compete agreements) was allocated to goodwill. Additions to goodwill, client lists and other intangible assets resulting from acquisitions and contingent consideration earned during the twelve months ended December 31, 2005 and 2004 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Goodwill	<u>\$ 9,095</u>	<u>\$ 2,619</u>
Client lists	<u>\$ 5,817</u>	<u>\$ 5,111</u>
Other intangible assets	<u>\$ 597</u>	<u>\$ 307</u>

18. Discontinued Operations and Divestitures

From time to time, CBIZ will divest (through sale or closure) business operations that are underperforming, located in secondary markets, or do not provide the level of synergistic cross-serving opportunities with other CBIZ businesses that is desired. Divestitures are classified as discontinued operations provided they meet the criteria as provided in SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and EITF No. 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets in Determining Whether to Report Discontinued Operations".

In April 2006, CBIZ sold an operation from the Financial Services practice group. This operation qualified for treatment as a discontinued operation and is classified as such in the accompanying consolidated financial statements.

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

During 2005, CBIZ closed an operation from the Financial Services group, sold an operation from the Employee Services group, and committed to the divestiture of a business unit in the National Practices group. These operations qualified for treatment as discontinued operations and are classified as such in the accompanying consolidated financial statements.

The Employee Services operation was sold for proceeds that consisted of: \$2.0 million cash received at closing; \$4.1 million due from others which is subject to adjustment based upon actual cash collected on accounts receivable that were sold; and contingent proceeds which are determined based upon the divested operation's actual future performance. Contingent proceeds are recorded as gain on sale of discontinued operations as they are earned, and totaled \$4.6 million (pretax) during the fourth quarter and year ended December 31, 2005. Adjustments to the amount due from others are recorded to the operations of discontinued operations. During 2005, CBIZ also committed to the divestiture of a business unit in the National Practices group. CBIZ plans to divest of this business in two portions, one of which will be sold and the other which will be closed. The National Practices business operation will have continuing cash flows in 2006, as the business will continue to operate until sale and closure are complete. CBIZ expects the closure to be completed by the third quarter of 2006, and expects that the remaining portion will be sold before December 31, 2006.

CBIZ also sold two client lists during 2005, one each from the Financial Services and Employee Services practice groups. These client lists were sold for aggregate proceeds of \$0.1 million cash and \$0.2 million in net notes receivable, and resulted in a pretax gain of \$0.3 million. As these sales did not qualify for treatment as discontinued operations, the gains are reported as gain on sale of operations, net from continuing operations in the accompanying consolidated statement of operations.

During 2004, CBIZ sold or closed five business operations, consisting of four Financial Services operations, and an operation from the National Practices segment. In addition to the divestiture of these operations, CBIZ sold three client lists from the Financial Services group and a client list from the Employee Services group. Sales were made for aggregate proceeds of \$4.6 million cash, \$2.3 million in notes receivable and CBIZ stock valued at \$0.1 million. Three of the divestitures qualified for treatment as discontinued operations and are classified as such in the accompanying consolidated financial statements. Operations that did not qualify for treatment as discontinued operations were sold for a pretax gain of \$1.0 million, which is reported as gain on sale of operations, net from continuing operations.

During 2003, CBIZ sold or closed eight business operations consisting of four Financial Services operations, two Employee Services operations and two National Practice operations. CBIZ also sold four client lists and related assets within the Financial Services group. These businesses and client lists were sold for aggregate proceeds of \$7.2 million cash, \$0.2 million in stock, \$0.4 million in notes receivable, and \$0.1 million in other receivables. Six of the business operations satisfied the criteria for treatment as discontinued operations, and were classified as such in the accompanying financial statements. The two operations and client lists which did not qualify for treatment as discontinued operations were sold for a pretax gain of \$2.5 million, which is reported as gain on sale of operations, net from continuing operations.

CBIZ may earn additional proceeds on the sale of certain client lists, which are contingent upon future revenue generated by the client lists. CBIZ records these proceeds as other income when they are earned.

For those business operations that qualified for treatment as discontinued operations, the net assets, liabilities and results of operations are reported separately in the accompanying consolidated financial statements. Revenue and loss from operations of discontinued operations for the years ended December 31, 2005, 2004, and 2003 were as follows (in thousands):

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue	\$ 7,667	\$ 20,232	\$ 38,764
Loss from operations of discontinued operations before income tax benefit	\$(10,132)	\$ (7,932)	\$ (774)
Income tax benefit	(3,749)	(2,673)	(227)
Loss from operations of discontinued operations, net of tax	<u>\$ (6,383)</u>	<u>\$ (5,259)</u>	<u>\$ (547)</u>

Gains on disposals of discontinued operations for the years ended December 31 2005, 2004 and 2003 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Gain on disposal of discontinued operations, before income tax expense (1)	\$ 5,635	\$ 398	\$ 1,457
Income tax expense	2,085	266	731
Gain on disposal of discontinued operations, net of tax	<u>\$ 3,550</u>	<u>\$ 132</u>	<u>\$ 726</u>

1) Includes contingent proceeds in the amount of \$4,569, for the Employee Services operation that was sold in the third quarter of 2005.

At December 31, 2005 and 2004, the assets and liabilities of business operations classified as discontinued operations consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Assets:		
Accounts receivable, net	\$ 2,114	\$ 11,613
Due from buyer	1,513	—
Funds held for clients	3,392	5,450
Property and equipment, net	497	1,962
Goodwill and other intangible assets, net	862	862
Other assets	107	260
Assets of discontinued operations	<u>\$ 8,485</u>	<u>\$ 20,147</u>
Liabilities:		
Accounts payable	\$ 326	\$ 1,093
Other liabilities	2,203	1,267
Client fund obligations	3,392	5,450
Deferred income tax liability, net	70	400
Liabilities of discontinued operations	<u>\$ 5,991</u>	<u>\$ 8,210</u>

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

19. Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2005 and 2004 (in thousands, except per share amounts).

	2005			
	March 31,	June 30,	September 30,	December 31,
Revenue	\$155,156	\$139,688	\$ 135,345	\$ 133,279
Operating expenses	127,015	121,006	120,533	120,209
Gross margin	28,141	18,682	14,812	13,070
Corporate general and administrative	6,421	7,449	6,364	4,677
Depreciation and amortization	3,894	3,783	3,759	3,703
Operating income	17,826	7,450	4,689	4,690
Other income (expense):				
Interest expense	(781)	(845)	(787)	(696)
Gain on sale of operations, net	—	—	29	285
Other income, net	388	757	1,069	1,957
Total other income (expense), net	(393)	(88)	311	1,546
Income from continuing operations before income tax expense	17,433	7,362	5,000	6,236
Income tax expense	7,225	2,694	2,142	2,464
Income from continuing operations	10,208	4,668	2,858	3,772
Loss from operations of discontinued operations, net of tax	(1,962)	(1,342)	(1,625)	(1,454)
Gain (loss) on disposal of discontinued operations, net of tax	(109)	—	802	2,857
Net income	<u>\$ 8,137</u>	<u>\$ 3,326</u>	<u>\$ 2,035</u>	<u>\$ 5,175</u>
Earnings (loss) per share:				
Basic:				
Continuing operations	\$ 0.13	\$ 0.06	\$ 0.04	\$ 0.05
Discontinued operations	(0.02)	(0.02)	(0.01)	0.02
Net income	<u>\$ 0.11</u>	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.07</u>
Diluted:				
Continuing operations	\$ 0.13	\$ 0.06	\$ 0.04	\$ 0.05
Discontinued operations	(0.03)	(0.02)	(0.01)	0.02
Net income	<u>\$ 0.10</u>	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.07</u>
Basic weighted average common shares	<u>75,738</u>	<u>75,175</u>	<u>73,793</u>	<u>73,123</u>
Diluted weighted average common shares	<u>77,718</u>	<u>76,947</u>	<u>75,988</u>	<u>75,947</u>

During the fourth quarter of 2005, CBIZ recorded a \$4.6 million pre-tax gain on the disposal of discontinued operations (\$2.9 million net of tax). The gain recorded in the fourth quarter represents contingent proceeds related to an operation from the Employee Services group that was sold in the third quarter of 2005. Contingent proceeds are recorded as they are earned, and are determined based upon the actual performance of the business that was sold. Divestitures are further discussed in Note 18.

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

	2004			
	March 31,	June 30,	September 30,	December 31,
Revenue	\$144,173	\$123,069	\$ 119,397	\$ 120,829
Operating expenses	113,272	108,387	106,743	112,589
Gross margin	30,901	14,682	12,654	8,240
Corporate general and administrative	5,726	6,023	6,008	6,342
Depreciation and amortization	3,855	4,014	4,012	4,082
Operating income (loss)	21,320	4,645	2,634	(2,184)
Other income (expense):				
Interest expense	(240)	(429)	(369)	(469)
Gain on sale of operations, net	384	534	78	—
Other income, net	459	228	451	2,081
Total other income, net	603	333	160	1,612
Income (loss) from continuing operations before income tax expense (benefit)	21,923	4,978	2,794	(572)
Income tax expense (benefit)	8,995	1,651	1,102	(3,803)
Income from continuing operations	12,928	3,327	1,692	3,231
Loss from operations of discontinued operations, net of tax	(1,347)	(945)	(1,574)	(1,393)
Gain (loss) on disposal of discontinued operations, net of tax	—	—	238	(106)
Net income	<u>\$ 11,581</u>	<u>\$ 2,382</u>	<u>\$ 356</u>	<u>\$ 1,732</u>
Earnings (loss) per share:				
Basic:				
Continuing operations	\$ 0.15	\$ 0.04	\$ 0.02	\$ 0.04
Discontinued operations	(0.01)	(0.01)	(0.01)	(0.02)
Net income	<u>\$ 0.14</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Diluted:				
Continuing operations	\$ 0.15	\$ 0.04	\$ 0.02	\$ 0.04
Discontinued operations	(0.02)	(0.01)	(0.01)	(0.02)
Net income	<u>\$ 0.13</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Basic weighted average common shares	<u>85,437</u>	<u>77,885</u>	<u>77,311</u>	<u>76,287</u>
Diluted weighted average common shares	<u>87,912</u>	<u>80,150</u>	<u>79,373</u>	<u>78,449</u>

During the fourth quarter of 2004, CBIZ recorded a \$3.5 million net tax benefit related primarily to a favorable tax position which was successfully resolved upon completion of the Internal Revenue Service examination for the years ended December 31, 1998, 1999 and 2000. In addition, CBIZ recorded \$0.4 million in interest income related to the refund, which is recorded as other income (expense), net in the accompanying consolidated statements of operations. See further discussion of the tax benefit and refund in Note 6.

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

20. Segment Disclosures

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

During the first quarter of 2006, CBIZ realigned its operations into four client-centric practice groups, and changed the names of those practice groups to encompass the comprehensive range of services offered by each of the respective groups. Changes made to CBIZ's practice groups during the first quarter of 2006 were as follows:

- **Financial Services:** The Financial Services practice group was formerly referred to as "Accounting, Tax and Advisory Services". In addition, CBIZ Valuation Group was transferred from National Practices into Financial Services during the first quarter of 2006.
- **Employee Services:** The Employee Services practice group was formerly referred to as "Benefits and Insurance Services". In addition, CBIZ Payroll Services was transferred from National Practices into Employee Services during the first quarter of 2006.
- **Medical Management Professionals:** Medical Management Professionals (CBIZ MMP) is an individual practice group. Historically, CBIZ MMP was reported and managed within National Practices.
- **National Practices:** The National Practices group is primarily comprised of business units offering technology services to clients, as well as other units whose individual size do not meet quantitative thresholds as provided by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". During the first quarter of 2006, CBIZ Valuation Group and CBIZ Payroll Services were transferred out of National Practices into Financial Services and Employee Services, respectively.

Prior period financial statements have been restated to reflect these changes in segment reporting. Although financial results for the individual practice groups have changed, there was no impact to CBIZ's consolidated financial statements as a result of these restatements. A detailed description of services offered by each of the practice groups, are provided in the paragraphs below.

Financial Services. The Financial Services practice group offers services in the following areas: general accounting services, cash flow management; strategic planning; consulting; record-keeping; federal, state and local tax return preparation; tax planning based on financial and investment alternatives; tax structuring of business transactions such as mergers and acquisitions; quarterly and year-end payroll tax reporting; corporate, partnership and fiduciary tax planning and return preparation; financial staffing services including chief financial officer services; financial investment analysis; succession, retirement, and estate planning; profitability, operational and efficiency enhancement consulting to a number of specialized industries; litigation support services; internal audit services; Sarbanes-Oxley consulting and compliance services; and valuations of commercial, tangible, and intangible assets and financial securities.

Employee Services. The Employee Services practice group offers services in the following areas: employee benefits, brokerage, consulting, and administration, including the design, implementation and administration of qualified plans, such as 401(k) plans, profit-sharing plans, defined benefit plans, and money purchase plans; actuarial services; health and welfare benefits consulting, including group health insurance plans; dental and vision care programs; group life insurance programs; accidental death and dismemberment and disability programs; COBRA

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

administration and voluntary insurance programs; health care and dependent care spending accounts; premium reimbursement plans; communications services to inform and educate employees about their benefit programs; executive benefits consulting on non-qualified retirement plans and business continuation plans; human capital advisory services; specialty high-risk life insurance; wealth management services, including Registered Investment Advisory Services, Investment Policy Statements, also known as IPS, and mutual fund selection based on IPS; ongoing mutual fund monitoring; and payroll processing and administration.

Medical Management Professionals. CBIZ MMP offers services to hospital-based physicians in the following areas: billing and accounts receivable management; coding and claims filing; comprehensive delinquent claims follow up and collections; compliance plans to meet government and other third party regulations; local office management; and comprehensive statistical and operational reporting; financial reporting, accounts payable, payroll, general ledger processing; design and implementation of managed care contracts with focus on negotiation strategies, pricing, cost containment and utilization tracking; review and negotiation of hospital contracts; evaluation of other strategic business partners; identification and coordination of practice manager and integration opportunities; coordination of practice expansion efforts; statement mailing operation; and turn-key billing system sales and support.

National Practices. The National Practices group offers services in the following areas: mergers and acquisitions; capital advisory services; health care consulting; government relations; and technology consulting, including strategic technology planning, project management, development, network design and implementation and software selection and implementation.

Corporate and Other. Included in Corporate and Other are operating expenses that are not directly allocated to the individual business units. These expenses are primarily comprised of incentive compensation, infrastructure costs (as described above) and consolidation and integration charges.

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

CBIZ operates in the United States and Toronto, Canada and there is no one customer that represents a significant portion of sales.

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

Segment information for the years ended December 31, 2005, 2004 and 2003 was as follows (in thousands):

	YEAR ENDED DECEMBER 31, 2005					Total
	Financial Services	Employee Services	CBIZ MMP	National Practices	Corporate and Other	
Revenue	\$263,918	\$153,345	\$97,583	\$48,622	\$ —	\$563,468
Operating expenses	222,662	122,491	80,033	43,749	19,828	488,763
Gross margin	41,256	30,854	17,550	4,873	(19,828)	74,705
Corporate general & admin	—	—	—	—	24,911	24,911
Depreciation & amortization	3,668	3,169	2,773	290	5,239	15,139
Operating income (loss)	37,588	27,685	14,777	4,583	(49,978)	34,655
Other income (expense):						
Interest expense	(115)	(4)	—	—	(2,990)	(3,109)
Gain on sale of operations, net	—	—	—	—	314	314
Other income, net	439	711	98	45	2,878	4,171
Total other income	324	707	98	45	202	1,376
Income (loss) from continuing operations before income tax expense	<u>\$ 37,912</u>	<u>\$ 28,392</u>	<u>\$14,875</u>	<u>\$ 4,628</u>	<u>\$(49,776)</u>	<u>\$ 36,031</u>
	YEAR ENDED DECEMBER 31, 2004					Total
	Financial Services	Employee Services	CBIZ MMP	National Practices	Corporate and Other	
Revenue	\$228,051	\$147,406	\$87,261	\$44,750	\$ —	\$507,468
Operating expenses	196,591	118,853	71,885	39,889	13,773	440,991
Gross margin	31,460	28,553	15,376	4,861	(13,773)	66,477
Corporate general & admin	—	—	—	—	24,099	24,099
Depreciation & amortization	3,713	2,981	2,719	485	6,065	15,963
Operating income (loss)	27,747	25,572	12,657	4,376	(43,937)	26,415
Other income (expense):						
Interest income (expense)	(43)	77	(1)	—	(1,540)	(1,507)
Gain on sale of operations, net	—	—	—	—	996	996
Other income, net	369	885	25	1	1,939	3,219
Total other income	326	962	24	1	1,395	2,708
Income (loss) from continuing operations before income tax expense	<u>\$ 28,073</u>	<u>\$ 26,534</u>	<u>\$12,681</u>	<u>\$ 4,377</u>	<u>\$(42,542)</u>	<u>\$ 29,123</u>

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

	YEAR ENDED DECEMBER 31, 2003					
	Financial Services	Employee Services	CBIZ MMP	National Practices	Corporate and Other	Total
Revenue	\$215,478	\$148,983	\$75,785	\$42,643	\$ —	\$482,889
Operating expenses	<u>190,042</u>	<u>118,233</u>	<u>61,566</u>	<u>42,278</u>	8,460	<u>420,579</u>
Gross margin	25,436	30,750	14,219	365	(8,460)	62,310
Corporate general & admin	—	—	—	—	18,745	18,745
Depreciation & amortization	<u>4,378</u>	<u>2,968</u>	<u>2,595</u>	<u>520</u>	6,104	<u>16,565</u>
Operating income (loss)	21,058	27,782	11,624	(155)	(33,309)	27,000
Other income (expense):						
Interest expense	(49)	(63)	(5)	(1)	(937)	(1,055)
Gain on sale of operations, net	—	—	—	—	2,519	2,519
Other income (expense), net	<u>742</u>	<u>(65)</u>	<u>(17)</u>	<u>(73)</u>	<u>(2,100)</u>	<u>(1,513)</u>
Total other income (expense)	693	(128)	(22)	(74)	(518)	(49)
Income (loss) from continuing operations before income tax expense	<u>\$ 21,751</u>	<u>\$ 27,654</u>	<u>\$11,602</u>	<u>\$ (229)</u>	<u>\$ (33,827)</u>	<u>\$ 26,951</u>

21. Subsequent Events

In January 2006, CBIZ completed the acquisitions of two companies. Valley Global Insurance Brokers is a property and casualty insurance broker focusing primarily on the construction and technology industries. Valley Global Insurance Brokers is located in San Jose, California and will complement our Employee Services practice group. The TriMed Group provides medical billing services and in-house computer systems primarily to hospital-based physician practices. The TriMed Group is located in Flint, Michigan and will be merged into CBIZ's Medical Management Professionals business.

In January 2006, CBIZ and Mayer Hoffman McCann P.C. extended the term of their administrative service agreement through 2019, which expiration date is subject to further extension upon agreement by both parties.

In January 2006, CBIZ acquired the trade name of a nationally recognized practice which will be complementary to our Financial Services practice group. Such trade name is being licensed to Mayer Hoffman McCann P.C. for a ten year period.

On February 9, 2006, CBIZ's Board of Directors authorized the purchase of up to 5.0 million shares of CBIZ common stock through March 31, 2007. The shares may be repurchased in the open market or through privately negotiated purchases.

Effective February 13, 2006, CBIZ entered into a new \$100 million unsecured credit facility, with an option to increase the commitment to \$150 million. The credit facility is maintained by Bank of America, N.A. as agent bank for a group of five participating banks and has a five year term expiring February 2011.

Effective February 21, 2006, CBIZ's Board of Directors granted 627,000 restricted performance shares pursuant to the 2002 Stock Incentive Plan. Performance awards will only vest and become exercisable provided that CBIZ meets certain pre-determined earnings per share targets at December 31, 2007.

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

As discussed in Note 18, on April 1, 2006, CBIZ sold an operation from the Financial Services practice group. In accordance with SFAS No. 144, the results of this business have been reported as discontinued operations in the Company's consolidated financial statements for all periods presented.

As discussed in Note 20, beginning in the first quarter of 2006, CBIZ realigned its reporting segments into four client-centric practice groups. In addition, CBIZ made certain reclassifications in its reporting of: 1) interest income earned by our payroll unit was previously reported as "other income" and is now reported as revenue; and 2) certain expenses reimbursable to CBIZ by its clients were previously netted against revenue and are now reported as operating expenses.

CBIZ, INC. AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND
RESERVES FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
(In thousands)

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>			<u>COLUMN D</u>	<u>COLUMN E</u>
	<u>Balance at Beginning of Period</u>	<u>Charged to Cost and Expense</u>	<u>Charged to Other Accounts</u>	<u>Acquisitions and Divestitures</u>	<u>Charge-offs, Net of Recoveries</u>	<u>Balance at End of Period</u>
<i>Year ended December 31, 2005:</i>						
Allowance deducted from assets to which they apply:						
Allowance for doubtful accounts	\$ 5,847	\$ 5,274	\$ (396)	\$ —	\$ (5,012)	\$ 5,713
<i>Year ended December 31, 2004</i>						
Allowance deducted from assets to which they apply:						
Allowance for doubtful accounts	\$ 6,161	\$ 4,385	\$ 374	\$ 57	\$ (5,130)	\$ 5,847
<i>Year ended December 31, 2003</i>						
Allowance deducted from assets to which they apply:						
Allowance for doubtful accounts	\$ 6,350	\$ 5,082	\$ 77	\$ (164)	\$ (5,184)	\$ 6,161