CBIZ, Inc.
Form 10-Q
August 11, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from __________ to __________

Commission File Number 0-25890

CBIZ, INC.

(Exact name of registrant as specified in its charter)

Delaware	22-2769024
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6050 Oak Tree Boulevard, South, Suite 500, Cleveland, Ohio	44131
(Address of principal executive offices)	(Zip Code)

(Registrant s telephone number, including area code) 216-447-9000

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Outstanding at

Class of Common Stock	July 31, 2008
Common Stock, par value $0.01 per share	61,677,489

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	JUNE 30, 2008	DECEMBER 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,622	$ 12,144
Restricted cash	18,331	15,402
Accounts receivable, net	132,699	115,333
Notes receivable current, net	1,934	1,722
Deferred income taxes current	6,963	4,682
Other current assets	10,308	10,086
Assets of discontinued operations	552	2,312
Current assets before funds held for clients	182,409	161,681
Funds held for clients current	57,320	88,048
Total current assets	239,729	249,729
Property and equipment, net	25,457	26,279
Notes receivable non-current, net	1,275	2,017
Deferred income taxes non-current	5,314	5,300
Goodwill and other intangible assets, net	281,721	268,388
Assets of deferred compensation plan	24,356	22,157
Funds held for clients non-current	17,767	
Other assets	3,963	4,122
Total assets	$ 599,582	$ 577,992
LIABILITIES		
Current liabilities:		
Accounts payable	$ 33,735	$ 27,293
Income taxes payable current	4,267	
Accrued personnel costs	32,968	40,281
Notes payable current	5,746	10,602
Other current liabilities	20,370	13,969
Liabilities of discontinued operations	3,210	3,777
Current liabilities before client fund obligations	100,296	95,922
Client fund obligations	76,700	88,048
Total current liabilities	176,996	183,970
Convertible notes	100,000	100,000

Bank debt	60,000	30,000
Income taxes payable non-current	7,555	8,029
Deferred compensation plan obligations	24,356	22,157
Other non-current liabilities	6,817	7,390
Total liabilities	375,724	351,546
STOCKHOLDERS EQUITY		
Common stock	1,056	1,041
Additional paid-in capital	485,577	477,804
Accumulated deficit	(13,347)	(37,414)
Treasury stock	(248,244)	(214,883)
Accumulated other comprehensive loss	(1,184)	(102)
Total stockholders equity	223,858	226,446
Total liabilities and stockholders equity	$ 599,582	$ 577,992

See the accompanying notes to the consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2008	**2007**	**2008**	**2007**
Revenue	$ 175,734	$ 156,658	$ 373,086	$ 335,102
Operating expenses	154,883	138,259	313,213	282,297
Gross margin	20,851	18,399	59,873	52,805
Corporate general and administrative expense	7,791	7,408	15,043	16,090
Operating income	13,060	10,991	44,830	36,715
Other income (expense):				
Interest expense	(1,888)	(1,694)	(3,605)	(2,966)
Gain on sale of operations, net	221	10	241	105
Other income (expense), net	335	1,988	(1,012)	2,595
Total other income (expense), net	(1,332)	304	(4,376)	(266)
Income from continuing operations before income tax expense	11,728	11,295	40,454	36,449
Income tax expense	4,255	4,792	15,753	15,100
Income from continuing operations	7,473	6,503	24,701	21,349
Loss from discontinued operations, net of tax	(196)	(556)	(194)	(945)
Gain (loss) on disposal of discontinued operations, net of tax	9	3,883	(440)	3,690
Net income	$ 7,286	$ 9,830	$ 24,067	$ 24,094
Earnings (loss) per share:				
Basic:				
Continuing operations	$ 0.12	$ 0.10	$ 0.39	$ 0.32
Discontinued operations		0.05	(0.01)	0.05
Net income	$ 0.12	$ 0.15	$ 0.38	$ 0.37
Diluted:				
Continuing operations	$ 0.12	$ 0.10	$ 0.39	$ 0.32

Discontinued operations		0.05	(0.01)	0.04
Net income	$ 0.12	$ 0.15	$ 0.38	$ 0.36
Basic weighted average shares outstanding	61,830	65,142	62,544	65,740
Diluted weighted average shares outstanding	62,440	66,459	63,320	67,236

See the accompanying notes to the consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30,	
	2008	**2007**
Cash flows from operating activities:		
Net income	$ 24,067	$ 24,094
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations, net of tax	194	945
(Gain) loss on disposal of discontinued operations, net of tax	440	(3,690)
Gain on sale of operations, net	(241)	(105)
Bad debt expense, net of recoveries	2,306	1,865
Depreciation and amortization expense	7,615	6,786
Deferred income taxes	(1,813)	318
Excess tax benefits from share based payment arrangements	(1,534)	(2,073)
Employee stock awards	1,824	1,086
Changes in assets and liabilities, net of acquisitions and divestitures:		
Restricted cash	(2,929)	1,493
Accounts receivable, net	(18,920)	(21,316)
Other assets	(78)	(403)
Accounts payable	6,059	527
Income taxes payable	5,697	4,058
Accrued personnel costs	(7,456)	(6,132)
Other liabilities	5,283	2,094
Net cash provided by continuing operations	20,514	9,547
Operating cash flows used in discontinued operations	(986)	(146)
Net cash provided by operating activities	19,528	9,401
Cash flows from investing activities:		
Business acquisitions and contingent consideration, net of cash acquired	(20,630)	(18,794)
Acquisition of other intangible assets	(808)	(1,608)
Proceeds from sales of divested and discontinued operations	2,253	16,811
Additions to property and equipment, net	(2,619)	(2,616)
Additions to notes receivable	(170)	
Payments received on notes receivable	241	92
Net cash used in discontinued operations		(570)
Net cash used in investing activities	(21,733)	(6,685)
Cash flows from financing activities:		
Proceeds from bank debt	135,610	153,150
Payment of bank debt	(105,610)	(143,150)
Payment of notes payable and capitalized leases	(254)	(296)

Payment for acquisition of treasury stock	(33,024)	(24,692)
Proceeds from exercise of stock options	3,525	2,911
Excess tax benefit from exercise of stock awards	1,534	2,073
Debt issuance costs	(98)	
Net cash provided by (used in) financing activities	1,683	(10,004)
Net decrease in cash and cash equivalents	(522)	(7,288)
Cash and cash equivalents at beginning of year	12,144	12,971
Cash and cash equivalents at end of period	$ 11,622	$ 5,683

See the accompanying notes to the consolidated financial statements.

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

1. **Summary of Significant Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting solely of normal recurring adjustments) considered necessary to present fairly the financial position of CBIZ, Inc. and its consolidated subsidiaries (CBIZ) as of June 30, 2008 and December 31, 2007, the results of their operations for the three and six months ended June 30, 2008 and 2007, and cash flows for the six months ended June 30, 2008 and 2007. Due to seasonality, potential changes in economic conditions, interest rate fluctuations and other factors, the results of operations for such interim periods are not necessarily indicative of the results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in CBIZ s Annual Report on Form 10-K for the year ended December 31, 2007.

Principles of Consolidation

The accompanying consolidated financial statements reflect the operations of CBIZ and all of its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. CBIZ does not consolidate variable interest entities as the impact is not material to the financial condition, results of operations or cash flows of CBIZ.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Management s estimates and assumptions include, but are not limited to, estimates of collectibility of accounts receivable and unbilled revenue, the realizability of goodwill and other intangible assets, the fair value of certain assets, the valuation of stock options in determining compensation expense, estimates of accrued liabilities (such as incentive compensation, self-insurance reserves and legal reserves), 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 2007 consolidated financial statements and disclosures have been reclassified to conform to the current year presentation to reflect the impact of discontinued operations.

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

Funds Held for Clients and Client Fund Obligations

Services provided by CBIZ include the preparation of payroll checks, federal, state, and local payroll tax returns, and flexible spending account administration. In relation to these services, CBIZ collects funds from its clients accounts in advance of paying these client obligations. Funds that are collected before

CBIZ, INC. AND SUBSIDIARIES

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

they are due are segregated and reported separately as Funds held for clients in the consolidated balance sheets. Other than certain federal and state regulations pertaining to flexible spending account administration, there are no regulatory or other contractual restrictions placed on these funds.

Funds held for clients are reported as current and non-current assets, as appropriate, based upon characteristics of the underlying investments, and Client fund obligations are reported as current liabilities. If the par value of investments held do not approximate fair value, the balance in Funds held for clients may not be equal to the balance in Client fund obligations . The amount of collected but not yet remitted funds may vary significantly during the year.

Funds held for clients include cash, overnight investments and Auction Rate Securities (ARS). ARS are classified as available for sale securities in accordance with FASB Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). See Note 7 for further discussion of ARS.

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 GAAP and SEC Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104 Revenue Recognition .

CBIZ offers a vast array of products and business services to its clients. Those services are delivered through four practice groups. A description of revenue recognition, as it relates to those groups, is included in the Annual Report on Form 10-K for the year ended December 31, 2007.

New Accounting Pronouncements

Effective January 1, 2008, CBIZ adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. For financial assets and liabilities, this statement is effective for fiscal periods beginning after November 15, 2007 and does not require any new fair value measurements, but rather expands the disclosure of fair value measurements. In February 2008, the FASB issued Staff Position No. 157-2 Effective Date of FASB Statement No. 157 which delayed the effective date of SFAS No. 157 to fiscal years ending after November 15, 2008 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Accordingly, CBIZ did not apply the provisions of SFAS No. 157 to long-lived assets, goodwill and other intangible assets that are measured for impairment testing purposes. See Note 8 for further discussion of the adoption of SFAS No. 157.

Effective January 1, 2008, CBIZ adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 . This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, including interim periods within that fiscal year. The Company did not elect the fair value option for any of its existing financial instruments as of June 30, 2008 and the Company has not determined whether or not it will elect this option for financial instruments it may acquire in the future.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) Business Combinations (SFAS No. 141R), which replaces SFAS No. 141, Business Combinations. SFAS No. 141R establishes principles and requirements for how an acquirer, a) recognizes and measures the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, b) recognizes and measures the goodwill acquired, and c) determines what information to disclose. SFAS No. 141R also requires that all acquisition-related costs, including restructuring, be recognized separately from the acquisition, and that

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

changes in acquired tax contingencies, including those existing at the date of adoption, be recognized in earnings if outside the maximum allocation period (generally one year). SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. CBIZ is currently evaluating the impact of adoption of SFAS No. 141R on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 (SFAS No. 160). SFAS 160 establishes requirements for ownership interests in subsidiaries held by parties other than the Company (sometimes called minority interests) be clearly identified, presented, and disclosed in the consolidated statement of financial position within equity, but separate from the parent s equity. All changes in the parent s ownership interests are required to be accounted for consistently as equity transactions and any retained noncontrolling equity investments in deconsolidated subsidiaries must be measured initially at fair value. This statement is effective for CBIZ beginning January 1, 2009. CBIZ is currently evaluating the potential impact of the adoption of SFAS No. 160 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161) as an amendment to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . SFAS No. 161 applies to all derivative instruments and related hedged items accounted for under SFAS No. 133. It requires entities to provide greater transparency about a) how and why an entity uses derivative instruments, b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and c) how derivative and related hedged items affect an entity s financial position, results of operations, and cash flow. SFAS No. 161 is effective for CBIZ beginning January 1, 2009. The Company is currently evaluating the impact of the adoption of SFAS No. 161 on its consolidated financial statements.

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 requires issuers of convertible debt that may be settled wholly or partly in cash when converted, to account for the debt and equity components separately. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 and must be applied retrospectively to all periods presented. This standard will have an impact on the Company s consolidated financial statements and the Company is currently evaluating the amount of the impact.

2. Accounts Receivable, Net

Accounts receivable balances at June 30, 2008 and December 31, 2007 were as follows (in thousands):

	2008	**2007**
Trade accounts receivable	$ 109,807	$ 98,881
Unbilled revenue	28,815	21,572
Other accounts receivable	559	712
Total accounts receivable	139,181	121,165
Allowance for doubtful accounts	(6,482)	(5,832)
Accounts receivable, net	$ 132,699	$ 115,333

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

3. Goodwill and Other Intangible Assets, Net

The components of goodwill and other intangible assets, net at June 30, 2008 and December 31, 2007 were as follows (in thousands):

	2008	2007
Goodwill	$ 224,956	$ 213,511
Intangibles:		
Client lists	68,272	63,234
Intangible assets other	7,842	8,125
Total intangibles	76,114	71,359
Total goodwill and other intangibles assets	301,070	284,870
Accumulated amortization	(19,349)	(16,482)
Goodwill and other intangible assets, net	$ 281,721	$ 268,388

Client lists are amortized over their expected periods of benefit not to exceed ten years. Other intangible assets, which consist primarily of non-compete agreements and trade-names, are amortized over periods ranging from two to ten years. Amortization expense for client lists and other intangible assets was approximately $2.0 million and $1.5 million for the three months ended and $3.9 million and $2.7 million for the six months ended June 30, 2008 and 2007, respectively.

4. Depreciation and Amortization Expense

Depreciation and amortization expense for property, equipment and intangible assets is reported in operating expenses or general and administrative expense in the accompanying consolidated statements of operations. Depreciation and amortization expense for the three and six months ended June 30, 2008 and 2007 was as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2008	2007	2008	2007
Operating expenses	$ 3,497	$ 2,822	$ 6,937	$ 5,386
Corporate general and administrative expense	301	592	678	1,400
Total depreciation and amortization expense	$ 3,798	$ 3,414	$ 7,615	$ 6,786

5. Borrowing Arrangements

Convertible Senior Subordinated Notes

CBIZ had $100.0 million of convertible senior subordinated notes (Notes) outstanding at June 30, 2008. The Notes are direct, unsecured, senior subordinated obligations of CBIZ and rank (i) junior in right of payment to all of CBIZ s existing and future senior indebtedness, (ii) equal in right of payment with any other future senior subordinated indebtedness, and (iii) senior in right of payment to all subordinated indebtedness. The terms of the Notes are governed by the Indenture dated as of May 30, 2006, with U.S. Bank National Association as trustee. The Notes and Indenture are further described in CBIZ s Annual Report on Form 10-K for the year ended December 31, 2007.

The Notes bear interest at a rate of 3.125% per annum, payable in cash semi-annually in arrears on each June 1 and December 1. The Notes mature on June 1, 2026 and may be redeemed by CBIZ in whole or in part anytime after June 6, 2011. The Notes are convertible into CBIZ common stock at a rate equal to 94.1035 shares per $1,000 principal amount of the Notes (equal to an initial conversion price of approximately $10.63 per share), subject to adjustment as described in the Indenture. Upon conversion,

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

CBIZ will deliver for each $1,000 principal amount of Notes, an amount consisting of cash equal to the lesser of $1,000 or the conversion value (as defined in the Indenture) and, to the extent that the conversion value exceeds $1,000, at CBIZ s election, cash or shares of CBIZ common stock in respect of the remainder.

Bank Debt

CBIZ maintains an unsecured credit facility (facility) with Bank of America as agent bank for a group of five participating banks. CBIZ had $60.0 million and $30.0 million of outstanding borrowings under the facility at June 30, 2008 and December 31, 2007, respectively. Rates for the six months ended June 30, 2008 and for the year ended December 31, 2007 were as follows:

	2008	2007
Weighted average rates	4.87%	7.05%
Range of effective rates	3.60% - 7.25%	6.09% - 8.25%

CBIZ had approximately $77.3 million of available funds under the facility at June 30, 2008. Available funds under the facility are reduced by letters of credit and obligations determined to be other indebtedness in accordance with the terms of the facility. The facility expires November 2012 and was amended effective April 3, 2008 to increase the commitment from $100.0 million to $150.0 million.

The 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 LIBOR plus an applicable margin. Additionally, a commitment fee 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. The facility also places restrictions on CBIZ s ability to create liens or other encumbrances, to make certain payments, investments, loans and guarantees and to sell or otherwise dispose of a substantial portion of assets, or to merge or consolidate with an unaffiliated entity. According to the terms of the facility, CBIZ is not permitted to declare or make any dividend payments, other than dividend payments made by one of its wholly owned subsidiaries to the parent company. The facility contains a provision that, in the event of a defined change in control, the facility may be terminated.

There are no limitations on CBIZ s ability to acquire businesses or repurchase CBIZ common stock provided that the Leverage Ratio is less than 2.0. The Leverage Ratio is calculated as total debt (excluding the convertible senior subordinated notes) compared to EBITDA as defined by the facility.

6. Commitments and Contingencies

Acquisitions

The purchase price that CBIZ pays for businesses and client lists generally consists 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. Shares of CBIZ common stock that are issued in connection with acquisitions may be contractually restricted from sale for periods up to two years. Acquisitions are further discussed in Note 12.

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CBIZ, INC. AND SUBSIDIARIES

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

Indemnifications

CBIZ has various agreements in which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations, warranties, covenants or agreements, related to matters such as title to assets sold and certain tax matters. Payment by CBIZ under such indemnification clauses are generally conditioned upon the other party making a claim. Such claims are typically subject to challenge by CBIZ and to dispute resolution procedures specified in the particular contract. Further, CBIZ s obligations under these agreements may be limited in terms of time and/or amount and, in some instances, CBIZ may have recourse against third parties for certain payments made by CBIZ. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of CBIZ s obligations and the unique facts of each particular agreement. Historically, CBIZ has not made any payments under these agreements that have been material individually or in the aggregate. As of June 30, 2008, CBIZ was not aware of any material obligations arising under indemnification agreements that would require payments.

Employment Agreements

CBIZ maintains severance and employment agreements with certain of its executive officers, whereby such officers may be entitled to payment in the event of termination of their employment. CBIZ also has arrangements with certain non-executive employees which may include severance and other employment provisions. CBIZ accrues for amounts payable under these contracts and arrangements as triggering events occur and obligations become known. During the six months ended June 30, 2008 and 2007, payments regarding such contracts and arrangements were not material.

Letters of Credit and Guarantees

CBIZ provides letters of credit to landlords (lessors) of its leased premises in lieu of cash security deposits which totaled $3.7 million as of June 30, 2008 and December 31, 2007. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding at June 30, 2008 and December 31, 2007 was $1.6 million and $1.4 million, respectively.

CBIZ acted as guarantor on various letters of credit for a CPA firm with which it has an affiliation, which totaled $1.4 million as of June 30, 2008 and December 31, 2007. 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.

Self-Funded Health Insurance

Effective January 1, 2008, CBIZ converted its comprehensive health benefit plan from a fully-insured plan to a self-funded program. Total expenses under this program are limited by stop-loss coverages on individually large claims as well as an overall aggregate amount of claims. A third party administrator processes claims and payments, but does not assume liability for benefits payable under this plan. CBIZ assumes responsibility for funding the plan benefits out of general assets, however, employees contribute to the costs of covered benefits through premium charges, deductibles and co-pays.

The Company s policy is to accrue a liability for both known claims and for estimated claims that have been incurred but not reported, as of each reporting date. The third party administrator provides the Company with reports and other information which provides a basis for the estimate of the liability at the end of each reporting period. Although management believes that it uses the best available information to determine the amount of the liability, unforeseen health claims could result in adjustments to the

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

estimated expense if circumstances differ from the assumptions used in estimating the liability. CBIZ s net healthcare costs include health claims expenses, premiums for the stop-loss coverages and administration fees to the third-party administrator.

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.

7. Financial Instruments

Auction Rate Securities

At December 31, 2007, the fair value of our investments in Auction Rate Securities (ARS) approximated face value and totaled $22.5 million. These ARS were recorded as Funds held for clients current in the consolidated balance sheets. There were no impairment charges recorded for our investments in ARS during the year ended December 31, 2007.

As a result of recent liquidity issues experienced in the credit and capital markets, CBIZ s ARS have experienced failed auctions during the first six months of 2008 and one of the investments was downgraded below the minimum rating required by the Company s investment policy. While CBIZ continues to earn and receive interest on these investments at the contractual rates, the estimated fair value of our investments in ARS no longer approximates their face value.

CBIZ determined the declines in fair value to be temporary and recorded the declines as unrealized losses in accumulated other comprehensive loss. As of June 30, 2008, CBIZ recorded unrealized losses totaling $1.6 million compared to $2.1 million at March 31, 2008. The fair value of ARS outstanding at June 30, 2008 was 91.7% of face value compared to 90.3% at March 31, 2008. During the three months ended June 30, 2008, two ARS were redeemed at face value.

CBIZ reclassified $17.8 million ARS with maturity dates beyond June 30, 2009, from current assets (Funds held for clients current) to non-current assets (Funds held for clients non-current), as CBIZ intends and has the ability to hold these investments until anticipated recovery in value occurs.

Interest Rate Swap

In December 2007, effective January 3, 2008, CBIZ entered into a two-year, zero-cost interest rate swap (swap) for the purpose of managing cash flow and interest rate variability on a portion of outstanding borrowings under the credit facility. CBIZ does not enter into derivative instruments for trading or speculative purposes.

Under the terms of the swap agreement, CBIZ pays interest at a fixed rate of 3.9% plus applicable margin under the credit agreement, and receives interest payments that are variable with one-month LIBOR. Interest is calculated by reference to the $10.0 million notional amount of the swap and payments are exchanged each month. During the three months and six months ended June 30, 2008, CBIZ recorded additional interest expense of approximately $31,000 and $37,000, respectively, related to the swap agreement.

CBIZ designated the swap as a cash flow hedge and accounts for the swap in accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and related

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CBIZ, INC. AND SUBSIDIARIES

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

amendments and interpretations. Accordingly, the interest rate swap is recorded as either an asset or liability in the consolidated balance sheets at fair value. Changes in fair value are recorded as a component of accumulated other comprehensive income in stockholders equity, net of tax, to the extent the swap is effective. Amounts recorded to accumulated other comprehensive income are reclassified to interest expense as interest on the hedged borrowings is recognized. Net amounts due related to the swap are recorded as adjustments to interest expense when earned or payable. Any ineffective portion of the swap is recorded to interest expense.

The fair value of the swap is included in other non-current liabilities on the consolidated balance sheets and was $0.1 million at June 30, 2008. Fair value represents the amount that CBIZ would have to pay to terminate the swap agreement at the reporting date. Over the next 12 months, CBIZ expects to reclassify approximately $0.1 million of deferred losses from accumulated other comprehensive loss to interest expense as related interest payments that are being hedged are recognized.

The swap is assessed for effectiveness and continued qualification for hedge accounting on a quarterly basis, and if the swap were to be de-designated as a hedge it would be accounted for as a financial instrument used for trading. There was no ineffectiveness for the first six months of 2008.

8. Fair Value Measurements

As discussed in Note 1, SFAS No. 157 was adopted for measuring and reporting financial assets and liabilities in the Company s financial statements beginning January 1, 2008. SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and are significant to the fair value measurement.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The following table summarizes CBIZ s assets and liabilities at June 30, 2008 that are measured at fair value on a recurring basis subsequent to initial recognition, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

		Fair Value Measurements at June 30, 2008 with		
	Portion of Carrying Value Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

	June 30, 2008	(Level 1)	(Level 2)	(Level 3)
Assets of deferred compensation plan	$ 24,356	$ 24,356	$	$
Auction rate securities	$ 19,380	$	$	$ 17,767
Interest rate swap	$ (125)	$	$	$ (125)

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

The following table summarizes the change in fair values of the Company s assets and liabilities identified as Level 3 for the six months ended June 30, 2008 (pre-tax basis) (in thousands):

	Auction Rate Securities	Interest Rate Swap
Beginning balance January 1, 2008	$	$
Transfers into Level 3	21,420	
Redemption of securities	(2,040)	
Unrealized losses included in accumulated other comprehensive loss	(1,613)	(125)
Ending balance June 30, 2008	$ 17,767	$ (125)

Due to the liquidity issues described in Note 7 and because quoted prices from broker-dealers were unavailable for CBIZ s ARS, the majority of the investments in ARS were transferred from Level 2 to Level 3 during the first six months of 2008. Accordingly, a fair value assessment of these securities was performed in accordance with SFAS No. 157. The assessment was performed on each security based on a discounted cash flow model utilizing various assumptions that included maximum interest rates for each issue, probabilities of successful auctions, failed auctions or default, the timing of cash flows, the quality and level of collateral of the securities, and the rate of recovery from bond insurers in the event of default. According to the fair value analysis, fair value of the ARS were 91.7% of face value, resulting in a $1.6 million temporary impairment at June 30, 2008.

CBIZ has determined that the impairment is temporary due to the recent dislocation in the credit markets, the quality of the investments and their underlying collateral, and the probability of a passed auction or redemption in the future, considering the issuers ability to refinance if necessary. In addition, CBIZ has sufficient liquidity in its client fund assets to fund client obligations and the Company does not anticipate that the current lack of liquidity of these investments will affect its ability to conduct business. Therefore, CBIZ has the ability and intent to hold the ARS until anticipated recovery in value occurs. The decline in fair value has been recorded as an unrealized loss in accumulated other comprehensive loss, net of income taxes.

9. Other Comprehensive Income

Other comprehensive income is reflected as an increase to stockholders equity and is not reflected in CBIZ s results of operations. Other comprehensive income for the three and six months ended June 30, 2008 and 2007 was as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2008	2007	2008	2007
Net income	$ 7,286	$ 9,830	$ 24,067	$ 24,094
Net unrealized gains (losses) on available-for-sale securities, net of income tax	277		(975)	6
Net unrealized gain (loss) on interest rate swap, net of income tax	106		(79)	
Foreign currency translation	(12)	(4)	(28)	(15)

Total other comprehensive income	$ 7,657	$ 9,826	$ 22,985	$ 24,085

Accumulated other comprehensive loss, net of tax, was approximately $1.2 million and $0.1 million at June 30, 2008 and December 31, 2007, respectively. Accumulated other comprehensive loss consisted of adjustments, net of tax, to: unrealized gains and losses on available-for-sale securities, the interest rate swap, and foreign currency translation.

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

10. Employer Share Plans

CBIZ has granted various stock-based awards under its 1996 Employee Stock Option Plan and 2002 Stock Incentive Plan, which are described in further detail in CBIZ s Annual Report on Form 10-K for the year ended December 31, 2007. The terms and vesting schedules for stock-based awards vary by type and date of grant. In accordance with SFAS No. 123 (revised 2004), Share-Based Payment , compensation expense for stock-based awards recognized during the three and six months ended June 30, 2008 and 2007 was as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2008	2007	2008	2007
Stock options	$ 751	$ 400	$ 1,160	$ 790
Restricted stock awards	402	189	664	296
Total stock-based compensation expense	$ 1,153	$ 589	$ 1,824	$ 1,086

Stock award activity during the six months ended June 30, 2008 was as follows (in thousands, except per share data):

	Stock Options		Restricted Stock Awards	
	Number of Options	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Grant-Date Fair Value (1)
Outstanding at beginning of year	3,638	$ 5.43	516	$ 6.28
Granted	1,274	$ 8.24	327	$ 8.33
Exercised	(980)	$ 3.61		$
Released		$	(203)	$ 6.06
Expired or canceled	(59)	$ 6.30	(7)	$ 8.23
Outstanding at June 30, 2008	3,873	$ 6.79	633	$ 7.41
Exercisable at June 30, 2008	1,419	$ 5.46		

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

CBIZ had approximately 8.4 million shares available for future grant under the stock option plans at June 30, 2008.

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

11. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2008 and 2007 (in thousands, except per share data).

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2008	2007	2008	2007
Numerator:				
Income from continuing operations after income tax expense	$ 7,473	$ 6,503	$ 24,701	$ 21,349
Denominator:				
Basic				
Weighted average common shares	61,830	65,142	62,544	65,740
Diluted				
Options (1)	484	1,033	609	1,196
Restricted stock awards	120	112	163	121
Contingent shares (2)	6	172	4	179
Total diluted weighted average common shares	62,440	66,459	63,320	67,236
Basic earnings per share from continuing operations	$ 0.12	$ 0.10	$ 0.39	$ 0.32
Diluted earnings per share from continuing operations	$ 0.12	$ 0.10	$ 0.39	$ 0.32

(1) A total of 2.2 million and 1.6 million options were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2008, respectively,

and a total of 1.6 million options were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2007, respectively, as their exercise prices would render them anti-dilutive.

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

12. Acquisitions

During the six months ended June 30, 2008, CBIZ acquired a payroll business, an insurance agency and a national executive search firm, all three of which are reported in the Employee Services practice group. The payroll business is located in Palm Desert, California and provides payroll processing services to a large number of clients primarily in California and Arizona. The insurance business is located in Frederick, Maryland and is a broker of innkeepers insurance programs. The national executive search firm is headquartered in Overland Park, Kansas and provides services to commercial and industrial companies, development-stage organizations and non-profit organizations. In addition, CBIZ acquired two client lists during the six months ended June 30, 2008, one of which is reported in the Financial Services practice group and the other is reported in the Employee Services practice group. Aggregate consideration for these acquisitions consisted of approximately $9.5 million in cash and approximately 23,600 shares of common stock paid at closing, and up to an additional $7.9 million in cash and approximately 25,900 shares of common stock which is contingent upon future financial performance of the acquired businesses and client lists. In addition, CBIZ paid approximately $11.1 million in cash and issued approximately 80,500 shares of common stock during the first six months of 2008 as contingent proceeds for previous acquisitions.

During the six months ended June 30, 2007, CBIZ acquired an accounting firm and a medical billing service company. The accounting firm is located in Phoenix, Arizona and is reported in the Financial

Services practice group. The medical billing services company is based in Montgomery, Alabama and is reported in the Medical Management Professionals practice group. In addition, CBIZ acquired three client lists during the six months ended June 30, 2007, two of which are reported in the Financial Services practice group and the other is reported in the Employee Services practice group. Aggregate consideration for the acquisitions consisted of approximately $10.4 million in cash and 62,400 shares of common stock paid at closing, and up to an additional $8.8 million (payable in cash and common stock) which is contingent on certain future revenue and earnings targets. In addition, CBIZ paid approximately $8.4 million in cash and issued approximately 21,800 shares of common stock during the first half of 2007 as contingent proceeds for previous acquisitions.

The operating results of these businesses are included in the accompanying consolidated financial statements since the dates of acquisition. Client lists and non-compete agreements are recorded at fair value at the time of acquisition. The excess of purchase price over the fair value of net assets acquired, (including client lists and non-compete agreements) are allocated to goodwill.

Additions to goodwill, client lists and other intangible assets resulting from acquisitions and contingent consideration earned during the six months ended June 30, 2008 and 2007 were as follows (in thousands):

	2008	2007
Goodwill	$ 11,445	$ 2,535
Client lists	$ 5,702	$ 10,400
Other intangible assets	$ 114	$ 274

13. Discontinued Operations and Divestitures

From time to time, CBIZ divests (through sale or closure) business operations that do not contribute to the Company s long-term objectives for growth, or that are not complementary to its target service offerings and markets. Divestitures are classified as discontinued operations provided they meet the criteria as provided in SFAS No. 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 .

Discontinued Operations

Gains or losses from the sale of discontinued operations are recorded as gain (loss) on disposal of discontinued operations, net of tax , in the accompanying consolidated statements of operations. Proceeds that are contingent upon a divested operation s actual future performance are recorded as gain on sale of discontinued operations in the period they are earned.

During the six months ended June 30, 2008, CBIZ sold an operation from the Financial Services practice group, closed an operation from National Practice group and received contingent proceeds from a Financial Services operation that was sold in the third quarter of 2007. CBIZ received cash proceeds totaling $1.6 million and recognized pre-tax losses totaling $0.4 million as the result of these divestitures.

During the six months ended June 30, 2007, CBIZ sold two operations which were previously reported in the Financial Services and Employee Services practice groups. CBIZ received proceeds of $14.7 million cash and $0.6 million in notes receivable, and recognized pre-tax gains of $8.6 million as a result of these sales.

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

For those businesses that qualified for treatment as discontinued operations, the assets, liabilities and results of operations are reported separately in the accompanying consolidated financial statements. Revenue and losses from discontinued operations for the three and six months ended June 30, 2008 and 2007 were as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2008	**2007**	**2008**	**2007**
Revenue	$ 118	$ 6,226	$ 505	$ 14,078
Loss from discontinued operations, before income tax benefit	$ (310)	$ (879)	$ (304)	$ (1,479)
Income tax benefit	114	323	110	534
Loss from discontinued operations net of tax	$ (196)	$ (556)	$ (194)	$ (945)

Gain (loss) on the disposal of discontinued operations for the three and six months ended June 30, 2008 and 2007 were as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2008	**2007**	**2008**	**2007**
Gain (loss) on disposal of discontinued operations, before income tax expense	$ 13	$ 8,620	$ (365)	$ 8,579
Income tax expense	4	4,737	75	4,889
Gain (loss) on disposal of discontinued operations, net of tax	$ 9	$ 3,883	$ (440)	$ 3,690

At June 30, 2008 and December 31, 2007, the assets and liabilities of businesses classified as discontinued operations consisted of the following (in thousands):

	JUNE 30, 2008	**DECEMBER 31, 2007**
Assets:		
Current assets	$ 520	$ 1,705
Goodwill and other intangible assets, net		569
Other assets	32	38
Assets of discontinued operations	$ 552	$ 2,312
Liabilities:		
Current liabilities	$ 864	$ 1,078
Other liabilities	2,346	2,699
Liabilities of discontinued operations	$ 3,210	$ 3,777

Divestitures

Gains or losses from divested operations and assets that do not qualify for treatment as discontinued operations are recorded as gain on sale of operations, net in the consolidated statements of operations.

During each of the six-month periods ended June 30, 2008 and 2007, CBIZ sold two client lists, and recognized gains related to client lists that were sold in previous years. Gain on sale of operations, net totaled $0.2 million and $0.1 million, for the six months ended June 30, 2008 and 2007, respectively. Proceeds for the six months ended June 30, 2008 consisted of cash and notes, each totaling $0.1 million, and proceeds for the six months ended June 30, 2007 consisted of cash and notes totaling $0.2 million and $0.1 million respectively.

CBIZ, INC. AND SUBSIDIARIES

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

In addition to the cash proceeds described under discontinued operations and divestitures above, CBIZ received cash payments totaling $0.6 million and $1.9 million during the six months ended June 30, 2008 and 2007, respectively, on outstanding notes receivable related to divestitures made in previous years. The gains and losses related to these divestitures were recorded in previous years.

14. Segment Disclosures

CBIZ is a diversified services company which, acting through its subsidiaries, provides professional business services primarily to small and medium-sized businesses, as well as individuals, governmental entities, and not-for-profit enterprises throughout the United States and Canada. CBIZ delivers its integrated services through the following four practice groups: Financial Services, Employee Services, Medical Management Professionals (MMP), and National Practices. The business units have been aggregated based on the following factors: similarity of the products and services provided to clients; similarity of the regulatory environment; and similarity of economic conditions affecting long-term performance. The business units are managed along these segment lines. A general description of services provided by practice group is listed in the table below.

Financial Services

Accounting

Tax

Financial Advisory

Litigation Support

Valuation

Internal Audit

Fraud Detection

Real Estate Advisory

Employee Services

Group Health

Property & Casualty

COBRA / Flex

Retirement Planning

Wealth Management

Life Insurance

Human Capital Management

Payroll Services

Actuarial Services

MMP

Coding and Billing

Accounts Receivable Management

Full Practice Management Services

National Practices

Managed Networking and Hardware Services

IT Consulting

Project Management

Software Solutions

Mergers & Acquisitions

Health Care Consulting

Corporate and Other. Included in Corporate and Other are operating expenses that are not directly allocated to the individual business units. These costs include items such as incentive compensation, gains or losses attributable to assets held in the Company s deferred compensation plan, stock based compensation, and certain advertising expenses.

Accounting policies for the practice groups are the same as those described in Note 1 to the Annual Report on Form 10-K for the year ended December 31, 2007. 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 expenses reported in the Corporate and Other segment.

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

Segment information for the three and six months ended June 30, 2008 and 2007 was as follows (in thousands):

	THREE MONTHS ENDED JUNE 30, 2008					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	$ 74,955	$ 47,307	$ 41,899	$ 11,573	$	$ 175,734
Operating expenses	65,438	38,802	36,318	10,800	3,525	154,883
Gross margin	9,517	8,505	5,581	773	(3,525)	20,851
Corporate general & admin					7,791	7,791
Operating income (loss)	9,517	8,505	5,581	773	(11,316)	13,060
Other income (expense):						
Interest expense	(2)	(6)			(1,880)	(1,888)
Gain on sale of operations, net					221	221
Other income (expense), net	82	354	53	2	(156)	335
Total other income (expense)	80	348	53	2	(1,815)	(1,332)
Income (loss) from continuing operations before income tax expense	$ 9,597	$ 8,853	$ 5,634	$ 775	$ (13,131)	$ 11,728

	THREE MONTHS ENDED JUNE 30, 2007					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	$ 69,112	$ 42,837	$ 32,116	$ 12,593	$	$ 156,658
Operating expenses	59,814	34,774	27,595	10,975	5,101	138,259
Gross margin	9,298	8,063	4,521	1,618	(5,101)	18,399
Corporate general & admin					7,408	7,408
Operating income (loss)	9,298	8,063	4,521	1,618	(12,509)	10,991
Other income (expense):						
Interest expense	(12)	(8)			(1,674)	(1,694)
Gain on sale of operations, net					10	10
Other income, net	85	466	47	3	1,387	1,988
	73	458	47	3	(277)	304

Total other income (expense)						
Income (loss) from continuing operations before income tax expense	$ 9,371	$ 8,521	$ 4,568	$ 1,621	$ (12,786)	$ 11,295

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

	SIX MONTHS ENDED JUNE 30, 2008					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	$ 173,760	$ 94,562	$ 82,665	$ 22,099	$	$ 373,086
Operating expenses	136,150	77,243	72,410	21,179	6,231	313,213
Gross margin	37,610	17,319	10,255	920	(6,231)	59,873
Corporate general & admin					15,043	15,043
Operating income (loss)	37,610	17,319	10,255	920	(21,274)	44,830
Other income (expense):						
Interest expense	(8)	(13)			(3,584)	(3,605)
Gain on sale of operations, net					241	241
Other income (expense), net	178	808	136	15	(2,149)	(1,012)
Total other income (expense)	170	795	136	15	(5,492)	(4,376)
Income (loss) from continuing operations before income tax expense	$ 37,780	$ 18,114	$ 10,391	$ 935	$ (26,766)	$ 40,454

	SIX MONTHS ENDED JUNE 30, 2007					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	$ 161,144	$ 87,874	$ 61,724	$ 24,360	$	$ 335,102
Operating expenses	125,595	70,006	54,261	21,923	10,512	282,297
Gross margin	35,549	17,868	7,463	2,437	(10,512)	52,805
Corporate general & admin					16,090	16,090
Operating income (loss)	35,549	17,868	7,463	2,437	(26,602)	36,715
Other income (expense):						
Interest expense	(30)	(8)			(2,928)	(2,966)
Gain on sale of operations, net					105	105
Other income, net	179	914	93	16	1,393	2,595
	149	906	93	16	(1,430)	(266)

Total other income (expense)						
Income (loss) from continuing operations before income tax expense	$ 35,698	$ 18,774	$ 7,556	$ 2,453	$ (28,032)	$ 36,449

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

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

The following discussion is intended to assist in the understanding of CBIZ s financial position at June 30, 2008 and December 31, 2007, results of operations for the three and six months ended June 30, 2008 and 2007, and cash flows for the six months ended June 30, 2008 and 2007, and should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2007.

Overview

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

Financial Services

Accounting

Tax

Financial Advisory

Litigation Support

Valuation

Internal Audit

Fraud Detection

Real Estate Advisory

Employee Services

Group Health

Property & Casualty

COBRA / Flex

Retirement Planning

Wealth Management

Life Insurance

Human Capital Management

Payroll Services

Actuarial Services

MMP

Coding and Billing

Accounts Receivable Management

Full Practice Management Services

National Practices

Managed Networking and Hardware Services

IT Consulting

Project Management

Software Solutions

Mergers & Acquisitions

Health Care Consulting

Certain external relationships, regulatory factors and economic conditions currently impacting CBIZ s operations are provided in the discussion below.

Financial Services

Restrictions imposed by independence requirements and state accountancy laws and regulations preclude CBIZ from rendering audit and attest services (other than internal audit services). As such, CBIZ and its subsidiaries maintain joint-referral relationships and administrative service agreements (ASAs) with independent licensed Certified Public Accounting (CPA) firms under which audit and attest services may be provided to CBIZ s clients by such CPA firms. These firms are owned by licensed CPAs, a vast majority of whom are also employed by CBIZ subsidiaries.

Under these ASAs, CBIZ provides a range of services to the CPA firms, including (but not limited to): administrative functions such as office management, bookkeeping, and accounting; preparing marketing and promotion materials; providing office space, computer equipment, and systems support; and leasing administrative and professional staff. Services are performed in exchange for a fee. Fees earned by CBIZ under the ASAs are recorded as revenue in the accompanying consolidated statements of operations and were approximately $20.9 million and $19.8 million for the three months and $51.2 million and $48.0 million for the six months ended June 30, 2008 and 2007, respectively. The majority of these fees related to services rendered to privately-held clients. In the event that accounts receivable and unbilled work in process become uncollectible by the CPA firms, the service fee due to CBIZ is reduced on a pro rata basis. The ASAs have terms ranging up to eighteen years, are renewable upon agreement by both parties, and have certain rights of extension and termination.

With respect to CPA firm clients that are required to file audited financial statements with the SEC, the SEC staff views CBIZ and the CPA firms with which we have contractual relationships as a single entity in applying independence rules established by the accountancy regulators and the SEC. Accordingly, we do not hold any financial interest in an SEC-reporting attest client of an associated CPA firm, enter into any business relationship with an SEC-reporting attest client that the CPA firm performing an audit could not maintain, or sell any non-audit services to an SEC-reporting attest client that the CPA firm performing an audit could not maintain, under the auditor independence limitations set out in the Sarbanes-Oxley Act of 2002 and other professional accountancy independence standards. Applicable professional standards generally permit the Financial Services practice group to provide additional services to privately-held companies, in addition to those services which may be provided to SEC-reporting attest clients of an associated CPA firm. CBIZ and the CPA firms with which we are associated have implemented policies and procedures designed to enable us to maintain independence and freedom from conflicts of interest in accordance with applicable standards. Given the pre-existing limits set by CBIZ on its relationships with SEC-reporting attest clients of associated CPA firms, and the limited number and size of such clients, the imposition of Sarbanes-Oxley Act independence limitations did not and is not expected to materially affect CBIZ revenues.

The CPA firms with which CBIZ maintains ASAs may operate as limited liability companies, limited liability partnerships or professional corporations. The firms are separate legal entities with separate governing bodies and officers. Neither the existence of the ASAs nor the providing of services thereunder is intended to constitute control of the CPA firms by CBIZ. CBIZ and the CPA firms maintain their own respective liability and risk of loss in connection with performance of their respective services. Attest services can not be performed by any individual or entity which is not licensed to do so. CBIZ can not perform audits, reviews, compilations, or other attest services, does not contract to perform them and does not provide audit, review, compilation, or other attest reports. Given this legal prohibition and course of conduct, CBIZ does not believe it is likely that we would bear the risk of litigation losses related to attest services provided by the CPA firms.

Although the ASAs do not constitute control, CBIZ is one of the beneficiaries of the agreements and may bear certain economic risks. As such, the CPA firms with which CBIZ maintains administrative service agreements qualify as variable interest entities under FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), as amended. See further discussion in Note 1 of the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2007.

Employee Services

CBIZ s Employee Services group maintains relationships with many different insurance carriers. Some of these carriers have compensation arrangements with CBIZ whereby some portion of payments due may be contingent upon meeting certain performance goals, or upon CBIZ providing client services that would otherwise be provided by the carriers. These compensation arrangements are provided to CBIZ as a result of our performance and expertise, and may result in enhancing CBIZ s ability to access certain insurance markets and services on behalf of CBIZ clients. Total revenue recognized under these arrangements during the three and six months ended June 30, 2008 and 2007 were approximately 2% of consolidated CBIZ revenue for the respective periods.

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

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Medical Management Professionals

Changes in some managed care plans and federal Medicare and Medicaid physician and practice expense reimbursement rules and rates have impacted revenues and margins in our existing physician and medical billing and accounts receivable management business. The Deficit Reduction Act of 2005 (DRA) also provides for a reduction and cap that began in 2007 of reimbursement for certain fees and charges related to imaging services and facilities of offices, imaging centers and independent diagnostic testing facilities. In addition, certain managed care payors may impose precertification and other management programs which could limit or control the use of, and reimbursement for, imaging and diagnostic services. Certain managed care payors may institute pay for performance and quality initiative programs that could limit or control physician, office and facility, and practice services and procedures, as well as reimbursement costs, and replace volume-based payment methods. Since a majority of our physician and medical billing and accounts receivable management business is typically paid a portion of the revenue collected on behalf of our clients, any reduction in the volume of services or reimbursement rates for such services or expenses for which our clients are eligible to be paid may adversely affect our ability to generate revenue and maintain margins. As part of the Company s efforts to maintain margins in this business, two acquisitions were made during 2007. The acquired businesses were not impacted by the DRA changes in the same magnitude as the traditional MMP operation, as the acquired businesses provide services to physician groups specializing in emergency medicine and anesthesiology. CBIZ continuously monitors the regulatory factors that impact the Medical Management business.

Auction Rate Securities (ARS)

As a result of the recent liquidity issues experienced in the credit and capital markets, CBIZ s ARS have experienced failed auctions during the first six months of 2008 and one of the investments was downgraded below the minimum rating required by the Company s investment policy. While CBIZ continues to earn and receive interest on these investments at the contractual rates, the estimated fair value of our investments in ARS no longer approximates face value.

CBIZ determined the declines in fair value to be temporary and recorded the declines as unrealized losses in accumulated other comprehensive loss. As of June 30, 2008, CBIZ recorded unrealized losses totaling $1.6 million compared to $2.1 million at March 31, 2008. The fair value of ARS outstanding at June 30, 2008 was 91.7% of face value compared to 90.3% at March 31, 2008. During the three months ended June 30, 2008, two ARS were redeemed at face value.

CBIZ reclassified $17.8 million of ARS with maturity dates beyond June 30, 2009 from current assets (Funds held for clients current) to non-current assets (Funds held for clients non-current), as CBIZ intends and has the ability to hold these investments until anticipated recovery in value occurs.

CBIZ continues to monitor the market for ARS and consider its impact on the fair value of its investments. If the current market conditions deteriorate further, or the anticipated recovery in fair values does not occur, CBIZ may be required to record additional unrealized losses in other comprehensive income or impairment charges which would be recorded against net income in future periods. The principal associated with failed auctions will not be accessible until successful auctions occur, a buyer is found outside of the auction process, the issuers establish a different form of financing to replace these securities, issuers repay principal over time from cash flows prior to final maturity, or final payments come due according to contractual maturities ranging from 20 to 40 years. We understand that issuers and financial markets are working on alternatives that may improve liquidity, although it is not yet clear when or if such efforts will be successful. We expect that over time we will recover our investment associated with these ARS through one of the means described above.

Executive Summary

CBIZ acquired three businesses during the first six months of 2008. One business is located in Palm Desert, California and offers payroll processing services. The second business is located in Frederick, Maryland and provides insurance programs to the innkeepers industry. The third business is headquartered in Overland Park, Kansas and provides executive search services to various companies and organizations. All three businesses are reported in the Employee Services practice group.

During the first six months of 2008, CBIZ committed to the divestiture of two businesses and classified them as discontinued operations. These businesses were formerly reported in the Financial Services and National Practices groups. See Note 13 to the accompanying consolidated financial statements for further disclosure.

CBIZ believes that repurchasing shares of its common stock is a use of cash that provides value to its shareholders and, accordingly, CBIZ purchased approximately 3.8 million shares of its common stock at a total cost of $33.0 million during the six months ended June 30, 2008.

Effective April 3, 2008, CBIZ entered into an agreement to amend its credit facility with Bank of America, N.A. and other participating banks. The amendment serves to increase the commitment from $100.0 million to $150.0 million.

Effective January 1, 2008, CBIZ converted its comprehensive health benefit plan from a fully-insured plan to a self-funded program. The financial statements reflect accrued liabilities and expenses for this plan, with the liability based on estimates of costs to settle known claims as well as incurred but not reported claims. CBIZ maintains stop-loss coverage with third-party insurers to limit the exposure for both individually significant claims and the overall aggregate amount of claims made under the self-funded plan.

In July 2008, the Internal Revenue Service completed its examination of the Company s federal income tax returns for the years 2003 through 2006. The Company paid $0.1 million in May 2008 and $0.8 million in July 2008 to settle the audits. The May settlement was less than the Company estimated in its previous tax provisions and therefore reduced the second quarter tax expense. The July settlement will reduce tax expense in the third quarter.

On May 15, 2008, CBIZ announced the appointment of Ms. Benaree Pratt Wiley as a director of the Company. The appointment brings the total number of directors on CBIZ s board to nine, eight of whom are independent directors.

Results of Operations Continuing Operations

Same-unit revenue represents total revenue adjusted to reflect comparable periods of activity for acquisitions and divestitures. For example, for a business acquired on June 1, 2007, revenue for the month of June would be included in same-unit revenue for both years; revenue for the period January 1, 2008 through May 31, 2008 would be reported as revenue from acquired businesses. Revenue from divested operations represents operations that were sold or closed and did not meet the criteria for treatment as discontinued operations.

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Three Months Ended June 30, 2008 and 2007

Revenue

The following table summarizes total revenue for the three months ended June 30, 2008 and 2007 (in thousands, except percentages).

	THREE MONTHS ENDED JUNE 30,					
	2008	% of Total	2007	% of Total	$ Change	% Change
Same-unit revenue						
Financial Services	$ 74,955	42.7%	$ 69,112	44.1%	$ 5,843	8.5%
Employee Services	44,962	25.6%	42,837	27.4%	2,125	5.0%
MMP	34,190	19.4%	32,116	20.5%	2,074	6.5%
National Practices	11,573	6.6%	12,593	8.0%	(1,020)	(8.1)%
Total same-unit revenue	165,680	94.3%	156,658	100.0%	9,022	5.8%
Acquired businesses	10,054	5.7%			10,054	
Divested operations						
Total revenue	$ 175,734	100.0%	$ 156,658	100.0%	$ 19,076	12.2%

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

Gross margin and operating expenses The majority of CBIZ s operating expenses are relatively fixed in the short term, thus gross margin as a percentage of revenue generally improves with revenue growth. The primary components of operating expenses for the three months ended June 30, 2008 and 2007 are illustrated below:

	2008		2007		
	% of Operating Expense	% of Revenue	% of Operating Expense	% of Revenue	Change in % of Revenue
Personnel costs	72.5%	63.9%	73.5%	64.9%	(1.0)%
Occupancy costs	6.5%	5.7%	6.5%	5.7%	
Other (1)	21.0%	18.5%	20.0%	17.7%	0.8%
Total operating expenses		88.1%		88.3%	(0.2)%
Gross margin		11.9%		11.7%	0.2%

(1) Other operating expenses include office expense, depreciation and amortization expense, equipment

costs, professional fees and other expenses, none of which are individually significant as a percentage of total operating expenses.

Personnel costs as a percentage of revenue declined 1.0% to 63.9% for the three months ended June 30, 2008 compared to the same period in 2007. The decline in personnel costs was primarily the result of adjustments to the fair value of investments held in relation to the deferred compensation plan which are recorded as compensation expense. These adjustments are offset by the same adjustments to other income (expense), and thus do not have an impact on net income. Although these adjustments are recorded as operating expenses, they are not allocated to the individual practice groups. The increase or decrease in personnel costs as a percentage of revenue experienced by the individual practice groups is discussed in further detail under Operating Practice Groups below.

Corporate general and administrative expense Corporate general and administrative (G&A) expenses increased by $0.4 million to $7.8 million for the three months ended June 30, 2008, from $7.4 million for the comparable period of 2007. The primary components of corporate general and administrative expenses for the three months ended June 30, 2008 and 2007 are illustrated below:

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	2008		2007		
	% of G&A Expense	**% of Revenue**	**% of G&A Expense**	**% of Revenue**	**Change in % of Revenue**
Personnel costs	53.3%	2.4%	49.9%	2.4%	
Depreciation and amortization	3.9%	0.2%	8.0%	0.4%	(0.2)%
Professional services	20.0%	0.9%	10.9%	0.5%	0.4%
Other (1)	22.8%	0.9%	31.2%	1.4%	(0.5)%
Total corporate general and administrative expenses		4.4%		4.7%	(0.3)%

(1) Other corporate general and administrative expenses include office expense, equipment and computer expenses, insurance expense and other expenses, none of which are individually significant as a percentage of total corporate general and administrative expenses.

The increase in professional services primarily related to legal fees and were offset by a similar decrease in legal settlements which are included in other G&A expense.

Interest expense Interest expense was $1.9 million and $1.7 million for the three months ended June 30, 2008 and 2007, respectively. Average debt was $171.2 million for the three months ended June 30, 2008, compared to $132.9 million for the comparable period in 2007, and weighted-average interest rates were 3.8% and 4.2% during the three months ended June 30, 2008 and 2007, respectively.

Other income (expense), net Other income (expense), net is comprised of interest income, adjustments to the fair value of investments held in a rabbi trust related to the deferred compensation plan, gains and losses on sales of assets, and miscellaneous income such as contingent royalties from previous divestitures. CBIZ recognized a loss on the investments in its deferred compensation plan of $0.1 million for the second quarter of 2008 versus a gain of $1.2 million for the comparable period in 2007. These adjustments do not impact CBIZ s net income as they are offset by the same adjustments to compensation expense which is recorded as operating and corporate general administrative expenses in the consolidated statements of operations.

Income tax expense CBIZ recorded income tax expense from continuing operations of $4.3 million and $4.8 million for the three months ended June 30, 2008 and 2007, respectively. The effective tax rate for the three months ended June 30, 2008 was 36.3%, compared to an effective rate of 42.4% for the comparable period in 2007. The decrease in the effective tax rate for the second quarter of 2008 versus the comparable period in 2007 was primarily attributable to a favorable settlement of a portion of the IRS audit during the second quarter of 2008.

Operating Practice Groups

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

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Financial Services

	THREE MONTHS ENDED JUNE 30,			
	2008	**2007**	**$ Change**	**% Change**
	(In thousands, except percentages)			
Revenue				
Same-unit	$ 74,955	$ 69,112	$ 5,843	8.5%
Acquired businesses				
Divested operations				
Total revenue	$ 74,955	$ 69,112	$ 5,843	8.5%
Operating expenses	65,438	59,814	5,624	9.4%
Gross margin	$ 9,517	$ 9,298	$ 219	2.4%
Gross margin percent	12.7%	13.5%		

Approximately 60% of the growth in same-unit revenue was attributable to an increase in the aggregate number of hours charged to clients for consulting, valuation and litigation support services, and 40% was attributable to price increases for traditio