

CBIZ, Inc.
Form 10-Q
November 01, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 1-32961

CBIZ, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation

or organization)

6050 Oak Tree Boulevard, South, Suite 500, Cleveland, Ohio
(Address of principal executive offices)

22-2769024
(I.R.S. Employer

Identification No.)

44131
(Zip Code)

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

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

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

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

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

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

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

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

Class of Common Stock	Outstanding at October 31, 2016
Common Stock, par value \$0.01 per share	53,633,292

CBIZ, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 514	\$ 850
Restricted cash	33,015	24,860
Accounts receivable, net	194,419	153,608
Income taxes refundable	—	966
Deferred income taxes, net	—	4,796
Other current assets	21,705	15,903
Current assets before funds held for clients	249,653	200,983
Funds held for clients	133,679	171,497
Total current assets	383,332	372,480
Non-current assets:		
Property and equipment, net	19,360	20,162
Goodwill and other intangible assets, net	575,851	535,653
Assets of deferred compensation plan	70,768	64,245
Notes receivable	1,765	1,760
Other non-current assets	1,869	2,031
Total non-current assets	669,613	623,851
Total assets	\$ 1,052,945	\$ 996,331
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 42,526	\$ 35,555
Income taxes payable	8,175	—
Accrued personnel costs	39,471	39,611
Notes payable	636	—
Contingent purchase price liability	16,166	12,855
Other current liabilities	11,352	11,714
Current liabilities before client fund obligations	118,326	99,735
Client fund obligations	133,057	171,318
Total current liabilities	251,383	271,053
Non-current liabilities:		
Convertible notes, net	—	750
Bank debt (1)	219,600	205,800
Debt issuance costs (1)	(1,482)	(1,869)
Total long-term debt	218,118	204,681

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Notes payable	1,318	—
Income taxes payable	4,331	4,084
Deferred income taxes, net (1)	1,830	4,902
Deferred compensation plan obligations	70,768	64,245
Contingent purchase price liability	17,748	11,962
Other non-current liabilities	12,763	7,456
Total non-current liabilities	326,876	297,330
Total liabilities	578,259	568,383
STOCKHOLDERS' EQUITY		
Common stock	1,276	1,262
Additional paid in capital	648,847	634,626
Retained earnings	295,611	254,860
Treasury stock	(470,124)	(462,167)
Accumulated other comprehensive loss	(924)	(633)
Total stockholders' equity	474,686	427,948
Total liabilities and stockholders' equity	\$ 1,052,945	\$ 996,331

(1) See Note 15 to accompanying consolidated financial statements for discussion of our adoption of ASU 2015-03, ASU 2015-15 and ASU 2015-17 (as defined in Note 15).

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Revenue	\$199,794	\$187,102	\$621,047	\$586,010
Operating expenses	174,069	158,496	526,182	492,477
Gross margin	25,725	28,606	94,865	93,533
Corporate general and administrative expenses	8,679	8,028	27,270	24,508
Operating income	17,046	20,578	67,595	69,025
Other income (expense):				
Interest expense	(1,760)	(1,840)	(5,019)	(7,665)
Gain on sale of operations, net	329	5	480	106
Other income (expense), net	2,632	(2,367)	5,482	(634)
Total other income (expense), net	1,201	(4,202)	943	(8,193)
Income from continuing operations before income tax				
expense	18,247	16,376	68,538	60,832
Income tax expense	7,260	6,787	27,366	25,055
Income from continuing operations	10,987	9,589	41,172	35,777
Loss from discontinued operations, net of tax	(133)	(561)	(421)	(1,226)
Gain on disposal of discontinued operations, net of tax	—	1,172	—	1,462
Net income	\$10,854	\$10,200	\$40,751	\$36,013
Earnings (loss) per share:				
Basic:				
Continuing operations	\$0.21	\$0.19	\$0.79	\$0.72
Discontinued operations	—	0.01	(0.01)	—
Net income	\$0.21	\$0.20	\$0.78	\$0.72
Diluted:				
Continuing operations	\$0.20	\$0.18	\$0.77	\$0.68
Discontinued operations	—	0.01	(0.01)	0.01
Net income	\$0.20	\$0.19	\$0.76	\$0.69
Basic weighted average shares outstanding	52,648	51,736	52,086	49,812
Diluted weighted average shares outstanding	53,846	54,445	53,320	52,285
Comprehensive Income:				
Net income	\$10,854	\$10,200	\$40,751	\$36,013
Other comprehensive income (loss), net of tax	150	16	(291)	62
Comprehensive income	\$11,004	\$10,216	\$40,460	\$36,075

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(In thousands)

	Issued Common Shares	Treasury Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Totals
December 31, 2015	126,182	73,228	\$ 1,262	\$ 634,626	\$ 254,860	\$(462,167)	\$ (633)	\$ 427,948
Net income	—	—	—	—	40,751	—	—	40,751
Other comprehensive								
loss	—	—	—	—	—	—	(291)	(291)
Share repurchases	—	811	—	—	—	(7,957)	—	(7,957)
Restricted stock	301	—	4	(4)	—	—	—	—
Stock options								
exercised	749	—	6	5,252	—	—	—	5,258
Share-based								
compensation	—	—	—	4,332	—	—	—	4,332
Tax benefit from								
employee share								
plans	—	—	—	830	—	—	—	830
Business acquisitions	372	—	4	3,811	—	—	—	3,815
September 30, 2016	127,604	74,039	\$ 1,276	\$ 648,847	\$ 295,611	\$(470,124)	\$ (924)	\$ 474,686

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$40,751	\$36,013
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) from discontinued operations, net of tax	421	(236)
Gain on sale of operations, net	(480)	(106)
Loss on early extinguishment of convertible debt	—	833
Depreciation and amortization expense	16,359	15,168
Amortization of discount on notes and deferred financing costs	393	2,140
Amortization of discount on contingent earnout liability	223	115
Bad debt expense, net of recoveries	3,291	4,625
Adjustment to contingent earnout liability	(936)	(3,075)
Deferred income taxes	1,830	(1,144)
Employee stock awards	4,332	4,319
Excess tax benefits from share based payment arrangements	(859)	(560)
Changes in assets and liabilities, net of acquisitions and divestitures:		
Restricted cash	(8,154)	2,687
Accounts receivable, net	(38,666)	(37,699)
Other assets	(6,339)	1,409
Accounts payable	6,971	(1,716)
Income taxes payable	10,250	7,568
Accrued personnel costs	(175)	(3,350)
Other liabilities	5,178	(798)
Operating cash flows provided by continuing operations	34,390	26,193
Operating cash flows provided by (used in) discontinued operations	507	(417)
Net cash provided by operating activities	34,897	25,776
Cash flows from investing activities:		
Business acquisitions and purchases of client lists, net of cash acquired	(38,238)	(9,560)
Purchases of client fund investments	(7,300)	(12,494)
Proceeds from the sales and maturities of client fund investments	7,132	8,865
Proceeds from sales of divested operations	425	106
Decrease in funds held for clients	75,632	76,492
Additions to property and equipment, net	(2,843)	(6,186)
Collection of notes receivable	356	304
Investing cash flows provided by continuing operations	35,164	57,527
Investing cash flows provided by discontinued operations	—	2,694
Net cash provided by investing activities	35,164	60,221
Cash flows from financing activities:		
Proceeds from bank debt	355,200	272,300

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Payment of bank debt	(341,400)	(228,700)
Payment on early extinguishment of convertible debt	(760)	(17,172)
Payment for acquisition of treasury stock	(7,957)	(36,482)
Decrease in client funds obligations	(75,540)	(74,400)
Proceeds from exercise of stock options	5,258	6,564
Payment of contingent consideration of acquisitions	(5,807)	(7,806)
Excess tax benefit from exercise of stock awards	859	560
Payment of notes payable	(244)	—
Deferred financing costs	(6)	—
Net cash used in financing activities	(70,397)	(85,136)
Net (decrease) increase in cash and cash equivalents	(336)	861
Cash and cash equivalents at beginning of year	850	979
Cash and cash equivalents at end of period	\$514	\$1,840

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of CBIZ, Inc. and its subsidiaries (“CBIZ,” the “Company,” “we,” “us,” or “our”) have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by the accounting principles generally accepted in the United States (“GAAP”) for complete financial statements.

All intercompany accounts and transactions have been eliminated in consolidation. The accompanying unaudited 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.

These interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management’s estimates and assumptions include, but are not limited to, estimates of collectability of accounts receivable and unbilled revenue, the realizability of goodwill and other intangible assets, the fair value of certain assets, the valuation of stock options in determining compensation expense, estimates of accrued liabilities (such as incentive compensation, self-funded health insurance accruals, legal reserves, income tax uncertainties and contingent purchase price obligations), the provision for income taxes, the realizability of deferred tax assets, and other factors. Management’s estimates and assumptions are derived from and are continually evaluated based upon available information, judgment and experience. Changes in circumstances could cause actual results to differ materially from those estimates.

A description of revenue recognition policies is included in the Annual Report on Form 10-K for the year ended December 31, 2015.

2. Accounts Receivable, Net

Accounts receivable, net balances at September 30, 2016 and December 31, 2015 were as follows (in thousands):

September 30, December 31,

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	2016	2015
Trade accounts receivable	\$ 129,371	\$ 118,916
Unbilled revenue	78,964	47,351
Total accounts receivable	208,335	166,267
Allowance for doubtful accounts	(13,916)	(12,659)
Accounts receivable, net	\$ 194,419	\$ 153,608

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 September 30, 2016 and December 31, 2015 were as follows (in thousands):

	September 30, 2016	December 31, 2015
Goodwill	\$ 478,551	\$ 447,685
Intangible assets:		
Client lists	168,471	147,706
Other intangible assets	7,865	6,977
Total intangible assets	176,336	154,683
Total goodwill and intangibles assets	654,887	602,368
Accumulated amortization:		
Client lists	(76,497)	(65,037)
Other intangible assets	(2,539)	(1,678)
Total accumulated amortization	(79,036)	(66,715)
Goodwill and other intangible assets, net	\$ 575,851	\$ 535,653

4. Depreciation and Amortization

Depreciation and amortization expense for property and equipment and intangible assets for the three and nine months ended September 30, 2016 and 2015 was as follows (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Operating expenses	\$5,569	\$5,000	\$16,021	\$14,847
Corporate general and administrative expenses	108	117	338	321
Total depreciation and amortization expense	\$5,677	\$5,117	\$16,359	\$15,168

5. Debt and Financing Arrangements

At September 30, 2016, CBIZ's primary financing arrangement was the \$400.0 million unsecured credit facility discussed below, which provides the Company with the capital necessary to meet its working capital needs as well as the flexibility to continue with its strategic initiatives, including business acquisitions and share repurchases. In addition to the discussion below, refer to the Annual Report on Form 10-K for the year ended December 31, 2015 for

additional details of CBIZ's debt and financing arrangements.

Bank Debt

CBIZ has a \$400.0 million unsecured credit facility with Bank of America as agent for a group of eight participating banks that matures in July 2019. The balance outstanding under the credit facility was \$219.6 million and \$205.8 million at September 30, 2016 and December 31, 2015, respectively.

Rates for the nine months ended September 30, 2016 and 2015 were as follows:

	Nine Months Ended	
	September 30,	
	2016	2015
Weighted average rates	2.43%	2.04%
Range of effective rates	1.82% - 3.50%	1.50% - 3.25%

CBIZ, INC. AND SUBSIDIARIES

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

CBIZ had approximately \$99.0 million of available funds under the credit facility at September 30, 2016, net of outstanding letters of credit and performance guarantees of \$2.3 million. The credit facility provides CBIZ with operating flexibility and funding to support seasonal working capital needs and other strategic initiatives such as acquisitions and share repurchases. As of September 30, 2016, CBIZ was in compliance with its debt covenants.

3.125% Convertible Senior Subordinated Notes (the “2006 Notes”)

During the second quarter of 2016, CBIZ redeemed the remaining 2006 Notes for \$750 thousand in cash plus accrued interest under an optional early redemption provision.

Interest Expense

During the three and nine months ended September 30, 2016 and 2015, CBIZ recognized interest expense as follows (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Credit facility (1)	\$1,760	\$872	\$5,011	\$3,088
2010 Notes (2)	—	962	—	4,559
2006 Notes	—	6	8	18
Total interest expense	\$1,760	\$1,840	\$5,019	\$7,665

(1) Components of interest expense related to the credit facility include amortization of deferred financing costs, commitment fees and line of credit fees.

(2) Components of interest expense related to the 4.875% Convertible Senior Subordinated Notes (the “2010 Notes”) include the contractual coupon interest, amortization of discount and amortization of deferred financing costs. The 2010 Notes matured on October 1, 2015. As previously disclosed, holders received \$1,000 in cash for each \$1,000 principal amount of 2010 Notes along with a premium of the conversion value over par value. The \$71.8 million conversion value of the 2010 Notes was determined by a cash averaging period that began on October 5, 2015 and ended on October 30, 2015. Cash payments were settled on November 4, 2015 with funds available under the credit facility.

CBIZ, INC. AND SUBSIDIARIES

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

6. Commitments and Contingencies

Letters of Credit and Guarantees

CBIZ provides letters of credit to landlords (lessors) of its leased premises in lieu of cash security deposits, which totaled \$2.3 million at both September 30, 2016 and December 31, 2015. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding was \$2.4 million and \$2.3 million at September 30, 2016 and December 31, 2015, respectively.

Legal Proceedings

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

These lawsuits arose out of the bankruptcy of Mortgages Ltd., a mortgage lender to developers in the Phoenix, Arizona area. Various other professional firms and individuals not related to the Company were also named defendants in these lawsuits. The lawsuits asserted claims for, among others things, violations of the Arizona Securities Act, common law fraud, and negligent misrepresentation, and sought to hold the CBIZ Parties vicariously liable for Mayer Hoffman's conduct as Mortgage Ltd.'s auditor, as either a statutory control person under the Arizona Securities Act or a joint venturer under Arizona common law.

With the exception of claims being pursued by two plaintiffs from the Ashkenazi lawsuit ("Baldino Group"), all other related matters have been dismissed or settled without payment by the CBIZ Parties. The Baldino Group's claims, which allege damages of approximately \$16.0 million, are currently stayed as to the CBIZ Parties and Mayer Hoffman, and no trial date has been set.

On September 16, 2016, CBIZ, Inc. and its subsidiary CBIZ Benefits & Insurance Services, Inc. ("CBIZ Benefits") were named as defendants in a lawsuit filed in the U.S. District Court for the Western District of Pennsylvania. The federal court case is brought by UPMC, d/b/a University of Pittsburgh Medical Center, and a health system it acquired, UPMC Altoona (formerly, Altoona Regional Health System). The lawsuit asserts professional negligence, breach of contract, and negligent misrepresentation claims against CBIZ, CBIZ Benefits and a former employee of CBIZ Benefits in connection with actuarial services provided by CBIZ Benefits to Altoona Regional Health System. The complaint seeks damages in an amount of no less than \$142.0 million.

The Company cannot predict the outcome of the above matters or estimate the possible loss or range of possible loss, if any. Although the proceedings are subject to uncertainties inherent in the litigation process and the ultimate disposition of these proceedings is not presently determinable, the Company intends to vigorously defend these cases.

In addition to those items disclosed above, the Company is, from time to time, subject to claims and suits arising in the ordinary course of business.

CBIZ, INC. AND SUBSIDIARIES

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

7. Financial Instruments

Bonds

CBIZ held corporate and municipal bonds with par values totaling \$41.4 million and \$40.8 million at September 30, 2016 and December 31, 2015, respectively. All bonds are investment grade and are classified as available-for-sale. These bonds have maturity or callable dates ranging from October 2016 through October 2021, and are included in “Funds held for clients – current” in the accompanying Consolidated Balance Sheets based on the intent and ability of the Company to sell these investments at any time under favorable conditions. The following table summarizes CBIZ’s bond activity for the nine months ended September 30, 2016 and the twelve months ended December 31, 2015 (in thousands):

	Nine Months Ended September 30, 2016	Twelve Months Ended December 31, 2015
Fair value at beginning of period	\$ 43,142	\$ 38,399
Purchases	7,300	15,429
Redemptions	(2,150)	(987)
Maturities	(4,982)	(9,677)
Change in bond premium	(299)	172
Fair market value adjustment	416	(194)
Fair value at end of period	\$ 43,427	\$ 43,142

Interest Rate Swaps

CBIZ does not purchase or hold any derivative instruments for trading or speculative purposes. We utilize interest rate swaps to manage interest rate risk exposure associated with our floating-rate debt under the credit facility. Under these interest rate swap contracts, we receive cash flows from counterparties at variable rates based on LIBOR and pay the counterparties a fixed rate. See the Annual Report on Form 10-K for the year ended December 31, 2015 for further discussion on CBIZ’s interest rate swaps.

The following table summarizes CBIZ’s outstanding interest rate swaps and their classification in the accompanying Consolidated Balance Sheets at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016		
	Notional	Fair	
	Amount	Value	Balance Sheet Location
	(1)	(1)	
Interest rate swaps (2)	\$60,000	\$(579)	Other non-current liabilities

	December 31, 2015		
	Notional	Fair	
	Value		
	Amount	(1)	Balance Sheet Location
Interest rate swaps	\$50,000	\$240	Other non-current assets

(1) See additional disclosures regarding fair value measurements in Note 8.

(2) The notional value of each interest rate swap is \$10.0 million, \$15.0 million, \$25.0 million, and \$10.0 million with maturity tenors of 2, 3, 5 and 5 years, respectively. Under the terms of the interest rate swaps, CBIZ pays interest at a fixed rate of 0.885% (2-year), 1.155% (3-year), 1.300% (5-year) and 1.120% (5-year) plus applicable margin as stated in the agreement, and receives interest that varies with the one-month LIBOR.

CBIZ, INC. AND SUBSIDIARIES

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

The following table summarizes the effects of the interest rate swap on CBIZ's accompanying Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Gain (Loss) Recognized	Loss Reclassified		
	in AOCL, Net of Tax		from AOCL into Expense	
	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Interest rate swap	\$ 247	\$ —	\$ 103	\$ —
	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Interest rate swap	\$ (516)	\$ 79	\$ 318	\$ 128

8. Fair Value Measurements

The following table summarizes CBIZ's assets and liabilities at September 30, 2016 and December 31, 2015 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):

		September 30, 2016	December 31, 2015
Deferred compensation plan assets	Level 1	\$ 70,768	\$ 64,245
Corporate and municipal bonds	1	\$ 43,427	\$ 43,142
Interest rate swaps	2	\$ (579)	\$ 240
Contingent purchase price liabilities	3	\$ (33,914)	\$ (24,817)

During the nine months ended September 30, 2016 and 2015, there were no transfers between the valuation hierarchy Levels 1, 2 and 3. The following table summarizes the change in Level 3 fair values of the Company's contingent purchase price liabilities for the nine months ended September 30, 2016 and 2015 (pre-tax basis) (in thousands):

	2016	2015
Beginning balance – January 1	\$(24,817)	\$(33,368)
Additions from business acquisitions	(17,755)	(4,186)
Settlement of contingent purchase price liabilities	7,945	9,816
Change in fair value of contingencies	936	3,075
Change in net present value of contingencies	(223)	(115)
Ending balance – September 30	\$(33,914)	\$(24,778)

Contingent purchase price liabilities arise from business acquisitions and are classified as Level 3 due to the utilization of a probability weighted discounted cash flow approach to determine the fair value of the contingency. A contingent liability is established for each acquisition that has a contingent purchase price component extending over a term of two to six years. The significant unobservable input used in the fair value measurement of the contingent purchase price liabilities is the future performance of the acquired business. The future performance of the acquired business directly impacts the contingent purchase price that is paid to the seller; thus, performance that exceeds estimates would result in a higher payout, and a performance under estimates would result in a lower payout. Changes in the expected amount of potential payouts are recorded as adjustments to the initial contingent purchase price liability, with the same amount being recorded in the accompanying Consolidated Statements of Comprehensive Income. These liabilities are reviewed quarterly and adjusted if necessary. See Note 12 for further discussion of contingent purchase price liabilities.

The carrying amounts of CBIZ's cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments, and the carrying value of bank debt approximates fair

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

value as the interest rate on the bank debt is variable and approximates current market rates. As a result, the fair value measurement of CBIZ's bank debt is considered to be Level 2.

9. Other Comprehensive Income (Loss)

The following table is a summary of other comprehensive income (loss) and discloses the tax impact of each component of other comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net unrealized (loss) gain on available-for-sale				
securities, net of income taxes (1)	\$ (94)	\$ 31	\$ 249	\$ 24
Net unrealized gain (loss) on interest rate swaps, net				
of income taxes (2)	247	—	(516)	79
Foreign currency translation	(3)	(15)	(24)	(41)
Total other comprehensive income (loss)	\$ 150	\$ 16	\$ (291)	\$ 62

(1) Net of income tax (benefit) expense of (\$63) and \$21 for the three months ended September 30, 2016 and 2015, respectively, and net of income tax expense of \$167 and \$16 for the nine months ended September 30, 2016 and 2015, respectively.

(2) Net of income tax expense of \$145 and \$0 for the three months ended September 30, 2016 and 2015, respectively, and net of income tax (benefit) expense of (\$303) and \$46 for the nine months ended September 30, 2016 and 2015, respectively.

Accumulated other comprehensive loss, net of tax, was approximately \$0.9 million and \$0.6 million at September 30, 2016 and December 31, 2015, respectively. Accumulated other comprehensive loss consisted of adjustments, net of tax, for unrealized gains and losses on available-for-sale securities and interest rate swaps, and foreign currency translation.

10. Employer Share Plans

Effective May 15, 2014, CBIZ shareholders approved a new plan, the CBIZ, Inc. 2014 Stock Incentive Plan (“2014 Plan”). Under the 2014 Plan, which expires in 2024, a maximum of 9.6 million stock options, shares of restricted stock or other stock-based compensation awards may be granted. Shares subject to award under the 2014 Plan may be either authorized but unissued shares of CBIZ common stock or treasury shares. Compensation expense for stock-based awards recognized during the three and nine months ended September 30, 2016 and 2015 was as follows (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Stock options	\$574	\$583	\$1,717	\$1,958
Restricted stock awards	916	825	2,615	2,361
Total stock-based compensation expense	\$1,490	\$1,408	\$4,332	\$4,319

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

Stock award activity during the nine months ended September 30, 2016 was as follows (in thousands, except per share data):

	Stock Options		Restricted Stock Awards	
	Number of	Weighted Average Exercise Price	Number of	Weighted Average Grant-Date
	Options	Per Share	Shares	Fair Value (1)
Outstanding at beginning of year	4,885	\$ 7.50	962	\$ 8.08
Granted	654	\$ 10.35	305	\$ 10.37
Exercised	(749)	\$ 7.02	(435)	\$ 7.66
Expired or canceled	(35)	\$ 7.59	(5)	\$ 7.68
Outstanding at September 30, 2016	4,755	\$ 7.97	827	\$ 9.14
Exercisable at September 30, 2016	2,594	\$ 7.13		

(1) Represents weighted average market value of the shares; awards are granted at no cost to the recipients. CBIZ utilized the Black-Scholes-Merton options-pricing model to determine the fair value of stock options on the date of grant. The fair value of stock options granted during the nine months ended September 30, 2016 was \$2.40. The following weighted average assumptions were utilized:

	Nine Months Ended September 30,	
Expected volatility (1)	24.88	%
Expected option life (years) (2)	4.62	
Risk-free interest rate (3)	1.12	%
Expected dividend yield (4)	0.00	%

- (1) The expected volatility assumption was determined based upon the historical volatility of CBIZ's stock price, using daily price intervals.
- (2) The expected option life was determined based upon CBIZ's historical data using a midpoint scenario, which assumes all options are exercised halfway between the expirations date and the weighted average time it takes the option to vest.
- (3) The risk-free interest rate assumption was based upon zero-coupon U.S. Treasury bonds with a term approximating the expected life of the respective options.
- (4) The expected dividend yield assumption was determined in view of CBIZ's historical and estimated dividend payouts. CBIZ does not expect to change its dividend payout policy in the foreseeable future.

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

11. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the three and nine months ended September 30, 2016 and 2015 (in thousands, except per share data).

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Numerator:				
Income from continuing operations	\$10,987	\$9,589	\$41,172	\$35,777
Denominator:				
Basic				
Weighted average common shares outstanding	52,648	51,736	52,086	49,812
Diluted				
Stock options (1)	868	905	842	860
Restricted stock awards (1)	189	204	251	260
Contingent shares (2)	141	34	141	34
Convertible senior subordinated notes (3)	—	1,566	—	1,319
Diluted weighted average common shares outstanding	53,846	54,445	53,320	52,285
Basic earnings per share from continuing operations	\$0.21	\$0.19	\$0.79	\$0.72
Diluted earnings per share from continuing operations	\$0.20	\$0.18	\$0.77	\$0.68

- (1) A total of 1.1 million and 1.3 million share based awards were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2016, respectively, and a total of 1.4 million and 5.0 million share based awards were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2015, respectively, as their effect would be anti-dilutive.
- (2) Contingent shares represent additional shares to be issued for purchase price earned by former owners of businesses acquired by CBIZ.
- (3) The dilutive impact of potential shares to be issued upon conversion of the 2010 Notes is not applicable to the three and nine months ended September 30, 2016 due to the maturation of the 2010 Notes in the fourth quarter of 2015.

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

12. Acquisitions

The cost of an acquisition is measured at the fair value of the consideration transferred, including contingent consideration. Acquisition-related costs are recognized as an expense in the period in which they are incurred. The identifiable assets acquired, liabilities assumed and contingent consideration are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred over the net of the amounts of identifiable assets acquired and liabilities assumed. A significant portion of the goodwill is deductible for income tax purposes. The operating results of acquired businesses are included in the accompanying consolidated financial statements beginning on the date of acquisition.

During the nine months ended September 30, 2016, CBIZ acquired substantially all of the non-attest assets of four businesses:

First quarter 2016

Effective January 1, 2016, CBIZ acquired Millimaki Eggert, L.L.P., (“Millimaki”), located in San Diego, California. Millimaki provides professional tax, accounting, and financial services, with a specialty niche practice in the real estate sector, to closely held businesses, their owners, and mid-to-high net worth individuals. Annualized revenue attributable to Millimaki is estimated to be approximately \$2.4 million. Operating results attributable to Millimaki are reported in the Financial Services practice group.

Second quarter 2016

Effective April 1, 2016, CBIZ acquired The Savitz Organization, (“Savitz”), headquartered in Philadelphia, Pennsylvania with offices in Atlanta, Georgia, and Newton, Massachusetts. Savitz is an employee retirement and health and welfare benefits firm that provides actuarial, consulting and administration outsourcing services. Annualized revenue attributable to Savitz is estimated to be approximately \$20.0 million. Operating results attributable to Savitz are reported in the Employee Services practice group.

Effective June 1, 2016, CBIZ acquired Flex-Pay Business Services, Inc., (“Flex-Pay”), located in Winston-Salem, North Carolina. Flex-Pay provides payroll processing, Affordable Care Act fulfillment, and human resource solutions to more than 3,600 clients primarily in the Southeast. Annualized revenue attributable to Flex-Pay is estimated to be approximately \$10.0 million. Operating results attributable to Flex-Pay are reported in the Employee Services practice group.

Third quarter 2016

Effective July 1, 2016, CBIZ acquired Ed Jacobs & Associates, Inc. (“EJ&A”), located in Cleveland, Tennessee. EJ&A is an employee benefits consulting business with annualized revenue of approximately \$2.1 million. Operating results attributable to EJ&A are reported in the Employee Services practice group.

Pro forma results of operations for these acquisitions have not been presented because the effects of the acquisitions, individually or in the aggregate, were not significant to the Company’s results.

Aggregate consideration for these acquisitions consisted of approximately \$36.7 million in cash consideration, \$1.6 million in CBIZ common stock and \$17.8 million in contingent consideration.

CBIZ, INC. AND SUBSIDIARIES

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

The estimated fair values of the assets acquired and the liabilities assumed during the nine months ended September 30, 2016 are as follows (in thousands):

	Nine Months Ended September 30, 2016
Cash	\$ 6
Accounts receivable, net	5,436
Funds held for clients	37,230
Property and equipment, net	379
Other assets	