

CBIZ, Inc.
Form 10-Q
November 01, 2018

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, 2018

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)

(216) 447-9000

(Registrant's telephone number, including area code)

Not Applicable

(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018
Common Stock, par value \$0.01 per share	55,491,554

CBIZ, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION:	Page
Item 1. <u>Condensed Financial Statements (Unaudited)</u>	3
<u>Consolidated Balance Sheets – September 30, 2018 and December 31, 2017</u>	3
<u>Consolidated Statements of Comprehensive Income – Three and Nine Months Ended September 30, 2018 and 2017</u>	4
<u>Consolidated Statements of Stockholders’ Equity – Nine Months Ended September 30, 2018</u>	5
<u>Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2018 and 2017</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
PART II. OTHER INFORMATION:	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 3. <u>Defaults Upon Senior Securities</u>	39
Item 4. <u>Mine Safety Disclosures</u>	39
Item 5. <u>Other Information</u>	39
Item 6. <u>Exhibits</u>	40
<u>Signature</u>	41

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,493	\$ 424
Restricted cash	32,551	32,985
Accounts receivable, net	234,906	188,300
Income taxes refundable/receivable	—	813
Other current assets	26,576	22,539
Current assets before funds held for clients	297,526	245,061
Funds held for clients	126,311	203,112
Total current assets	423,837	448,173
Non-current assets:		
Property and equipment, net	31,400	26,081
Goodwill and other intangible assets, net	636,202	613,206
Assets of deferred compensation plan	93,310	85,589
Notes receivable	904	620
Other non-current assets	4,203	2,562
Total non-current assets	766,019	728,058
Total assets	\$ 1,189,856	\$ 1,176,231
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 57,764	\$ 51,375
Income taxes payable	6,304	—
Accrued personnel costs	55,038	45,264
Notes payable	1,523	1,861
Contingent purchase price liability	21,136	15,151
Other current liabilities	12,735	17,013
Current liabilities before client fund obligations	154,500	130,664
Client fund obligations	127,297	203,582
Total current liabilities	281,797	334,246
Non-current liabilities:		
Bank debt	167,100	178,500
Debt issuance costs	(1,618)	(828)
Total long-term debt	165,482	177,672
Notes payable	1,480	2,164
Income taxes payable	3,596	4,454
Deferred income taxes, net	5,636	3,339
Deferred compensation plan obligations	93,310	85,589
Contingent purchase price liability	18,760	22,423

Edgar Filing: CBIZ, Inc. - Form 10-Q

Other non-current liabilities	17,880	15,465
Total non-current liabilities	306,144	311,106
Total liabilities	587,941	645,352
STOCKHOLDERS' EQUITY		
Common stock	1,314	1,301
Additional paid in capital	690,140	675,504
Retained earnings	409,467	345,302
Treasury stock	(499,167)	(491,046)
Accumulated other comprehensive income (loss)	161	(182)
Total stockholders' equity	601,915	530,879
Total liabilities and stockholders' equity	\$ 1,189,856	\$ 1,176,231

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, 2018	2017	September 30, 2018	2017
Revenue	\$224,249	\$207,723	\$722,980	\$660,198
Operating expenses	198,607	184,723	608,459	565,609
Gross margin	25,642	23,000	114,521	94,589
Corporate general and administrative expenses	10,279	7,979	30,300	25,979
Operating income	15,363	15,021	84,221	68,610
Other (expense) income:				
Interest expense	(1,614)	(1,777)	(5,211)	(4,986)
Gain on sale of operations, net	—	—	663	45
Other income, net	3,143	2,792	2,544	9,293
Total other income (expense), net	1,529	1,015	(2,004)	4,352
Income from continuing operations before income tax				
expense	16,892	16,036	82,217	72,962
Income tax expense	3,297	6,172	19,691	26,656
Income from continuing operations	13,595	9,864	62,526	46,306
(Loss) gain from discontinued operations, net of tax	(9)	(206)	17	(776)
Net income	\$13,586	\$9,658	\$62,543	\$45,530
Earnings (loss) per share:				
Basic:				
Continuing operations	\$0.25	\$0.18	\$1.15	\$0.86
Discontinued operations	—	—	—	(0.01)
Net income	\$0.25	\$0.18	\$1.15	\$0.85
Diluted:				
Continuing operations	\$0.24	\$0.18	\$1.11	\$0.83
Discontinued operations	—	—	—	(0.01)
Net income	\$0.24	\$0.18	\$1.11	\$0.82
Basic weighted average shares outstanding	54,794	54,142	54,489	53,804
Diluted weighted average shares outstanding	56,740	55,827	56,393	55,641
Comprehensive income:				
Net income	\$13,586	\$9,658	\$62,543	\$45,530
Other comprehensive income, net of tax	55	16	343	233
Comprehensive income	\$13,641	\$9,674	\$62,886	\$45,763

See the accompanying notes to the consolidated financial statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(In thousands)

	Issued Common	Treasury	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Gain	Totals
	Shares	Shares	Stock	Capital	Earnings	Stock	Gain	Totals
December 31, 2017	130,075	75,484	\$ 1,301	\$ 675,504	\$ 345,302	\$(491,046)	\$ (182)	\$ 530,879
Cumulative-effect adjustment								
(Note 2)	—	—	—	—	1,622	—	—	1,622
Adjusted balance at January 1,								
2018	130,075	75,484	\$ 1,301	\$ 675,504	\$ 346,924	\$(491,046)	\$ (182)	\$ 532,501
Net income	—	—	—	—	62,543	—	—	62,543
Other comprehensive income	—	—	—	—	—	—	343	343
Share repurchases	—	379	—	—	—	(8,121)	—	(8,121)
Restricted stock	272	—	3	(3)	—	—	—	—
Stock options exercised	840	—	8	6,068	—	—	—	6,076
Share-based compensation	—	—	—	5,358	—	—	—	5,358
Business acquisitions	169	—	2	3,213	—	—	—	3,215
September 30, 2018	131,356	75,863	\$ 1,314	\$ 690,140	\$ 409,467	\$(499,167)	\$ 161	\$ 601,915

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,	
	2018	2017
Cash flows from operating activities:		
Net income	\$62,543	\$45,530
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	17,528	17,167
Bad debt expense, net of recoveries	3,697	4,265
Adjustment to contingent earnout liability	3,290	(221)
Stock-based compensation expense	5,358	4,247
Other noncash adjustments	(1,989)	(3,273)
Changes in assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable, net	(38,937)	(38,095)
Other assets	(3,474)	2,293
Accounts payable	108	(61)
Income taxes payable	9,458	12,509
Accrued personnel costs	8,986	(7,368)
Other liabilities	(3,134)	1,606
Operating cash flows provided by continuing operations	63,434	38,599
Operating cash flows used in discontinued operations	(162)	(748)
Net cash provided by operating activities	63,272	37,851
Cash flows from investing activities:		
Business acquisitions and purchases of client lists, net of cash acquired	(24,612)	(27,406)
Purchases of client fund investments	(10,745)	(14,046)
Proceeds from the sales and maturities of client fund investments	8,701	6,495
Proceeds from sales of divested operations	332	45
Increase in funds held for clients	78,307	87,224
Additions to property and equipment, net	(9,800)	(8,870)
Collection of notes receivable	18	21
Net cash provided by investing activities	42,201	43,463
Cash flows from financing activities:		
Proceeds from bank debt	563,800	425,400
Payment of bank debt	(575,200)	(410,800)
Payment for acquisition of treasury stock	(8,121)	(10,261)
Decrease in client funds obligations	(76,285)	(79,736)
Proceeds from exercise of stock options	6,076	6,227
Payment of contingent consideration for acquisitions	(11,677)	(9,827)
Other, net	(1,431)	(309)
Net cash used in financing activities	(102,838)	(79,306)
Net increase in cash, cash equivalents and restricted cash	2,635	2,008
Cash, cash equivalents and restricted cash at beginning of year	33,409	31,374
Cash, cash equivalents and restricted cash at end of period	\$36,044	\$33,382

See the accompanying notes to the consolidated financial statements

6

CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: CBIZ, Inc. is a diversified services company which, acting through its subsidiaries, has been providing professional business services since 1996, primarily to small and medium-sized businesses, as well as individuals, governmental entities, and not-for-profit enterprises throughout the United States and parts of Canada. CBIZ, Inc. manages and reports its operations along three practice groups; Financial Services, Benefits and Insurance Services and National Practices. A further description of products and services offered by each of the practice groups is provided in Note 16, Segment Disclosures, to the accompanying consolidated financial statements.

Basis of Consolidation: The accompanying unaudited condensed consolidated financial statements include the operations of CBIZ, Inc. and all of its wholly-owned subsidiaries (“CBIZ”, the “Company”, “we”, “us”, or “our”), after elimination of all intercompany balances and transactions. These condensed 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.

Unaudited Interim Financial Statements: The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

In the opinion of CBIZ management, the accompanying condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial condition, results of operations, and cash flows for the interim periods presented, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2018.

Use of Estimates: The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Changes in circumstances could cause actual results to differ materially from these estimates.

Changes in Accounting Policies: We have consistently applied the accounting policies for the periods presented as described in Note 1, Basis of Presentation and Significant Accounting Policies, to the consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Effective January 1, 2018, we adopted Accounting Standards Update (“ASU”) No. 2015-14, “Revenue from Contracts with Customers” (“Topic 606”). As a result, we have changed our accounting policy for revenue recognition as described below in Note 2, New Accounting Pronouncements.

NOTE 2. New Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) is the sole source of authoritative GAAP other than the SEC issued rules and regulations that apply only to SEC registrants. The FASB

issues an accounting standard to communicate changes to the FASB codification. We assess and review the impact of all accounting standards. Any accounting standards not listed below were reviewed and determined to be either not applicable or are not expected to have a material impact on the consolidated financial statements of the Company.

Accounting Standards Adopted in 2018

Modification Accounting for Share-Based Payment Awards: Effective January 1, 2018, we adopted ASU No. 2017-09, “Compensation – Stock Compensation (Topic 718) – Scope of Modification Accounting.” The new standard clarifies when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. Modification accounting is required if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. We typically do not change either the terms or conditions of share-based payment awards once they are granted; therefore, the adoption of this new guidance had no impact on our consolidated financial statements.

CBIZ, INC. AND SUBSIDIARIES

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

Restricted Cash - Statement of Cash Flows: Effective January 1, 2018, we adopted ASU No. 2016-18, “Statement of Cash Flows (Topic 230).” The new standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. When restricted cash is presented separately from cash and cash equivalents on the balance sheet, a reconciliation is required between the amounts presented on the statement of cash flows and the balance sheet, as well as a disclosure of information about the nature of the restrictions. The adoption of this new standard resulted in a \$0.4 million decrease in net cash provided by operating activities and a \$4.2 million increase in net cash provided by operating activities for the nine months ended September 30, 2018 and 2017, respectively.

Restricted cash consists of funds held by us in relation to our capital and investment advisory services as those funds are restricted in accordance with applicable Financial Industry Regulatory Authority regulations. Restricted cash also consists of funds on deposit from clients in connection with the pass-through of insurance premiums to the carrier with the related liability for these funds recorded in “Accounts payable” in the accompanying Consolidated Balance Sheets.

The following table provides a reconciliation of cash, cash equivalents and restricted cash as reported in the accompanying Consolidated Balance Sheets that sum to the total of the same such amount shown in the accompanying Consolidated Statements of Cash Flows (in thousands):

	September 30, 2018	September 30, 2017
Cash and cash equivalents	\$ 3,493	\$ 1,278
Restricted cash	32,551	32,104
Total cash, cash equivalents and restricted cash	\$ 36,044	\$ 33,382

Statement of Cash Flows: Effective January 1, 2018, we adopted ASU No. 2016-15, “Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments.” The new standard provides guidance on eight specific cash flow issues. The application of this guidance did not have a material effect on the presentation of our Statement of Cash Flows.

Revenue from Contracts with Customers: Effective January 1, 2018, we adopted Topic 606 using the modified retrospective transition method. We recognized the cumulative effect of initially applying the new standard as an adjustment directly to the opening balance of “Retained earnings” at January 1, 2018. The comparative information has not been restated and continues to be reported under the legacy standard.

We evaluate our revenue contracts with customers based on the five-step model under Topic 606, pursuant to which we: (i) identify the contract with the customer; (ii) identify the performance obligation in the contract; (iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue when as each performance obligation is satisfied. If we determine that a contract with enforceable rights and obligations does not exist, revenues are

deferred until all criteria for an enforceable contract are met.

Revenue recognition was consistent under both the legacy standard and Topic 606 for the majority of our revenue streams, with the exception of two business units within our Benefits and Insurance Services practice group. The revenue recognition policies in our Benefits and Insurance Services practice group have been modified under the new standard as follows.

In our Property and Casualty business unit, commission revenue under agency billing arrangements (pursuant to which we bill the insured, collect the funds and remit the premium to the insurance carrier less our commissions) was previously recognized as of the later of the effective date of the insurance policy or the date billed to the customer.

We now recognize the commission revenue on the effective date of the insurance policy.

Also in our Property and Casualty business unit, commission revenue under direct billing arrangements (pursuant to which the insurance carrier bills the insured directly and remits the commissions to us) was previously recognized when the data necessary from the carriers was available, whereas now we recognize the commission revenue on the effective date of the insurance policy.

CBIZ, INC. AND SUBSIDIARIES

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

In our Retirement Plan Services business unit, under certain defined benefit administration arrangements we charge new clients an initial, non-refundable, set-up fee as part of a multi-year service agreement. Previously, these fees were recognized over the initial set up period, whereas now we defer the set-up fees and associated costs and recognize them over the life of the contract or the expected customer relationship, whichever is longer. The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet was as follows (in thousands):

Balance Sheet	Balance at December 31, 2017	Adjustments due to Topic 606	Balance at January 1, 2018
ASSETS			
Accounts receivable, net	\$ 188,300	\$ 9,446	\$ 197,746
Other current assets	259,873	80	259,953
Other non-current assets	728,058	728	728,786
Total assets	\$ 1,176,231	\$ 10,254	\$ 1,186,485
LIABILITIES			
Accounts payable	51,375	6,281	57,656
Accrued personnel costs	45,264	595	45,859
Other current liabilities	237,607	113	237,720
Deferred income taxes, net	3,339	631	3,970
Other non-current liabilities	307,767	1,012	308,779
Total liabilities	645,352	8,632	653,984
STOCKHOLDERS' EQUITY			
Retained earnings	345,302	1,622	346,924
Other stockholders' equity	185,577	—	185,577
Total stockholders' equity	530,879	1,622	532,501
Total liabilities and stockholders' equity	\$ 1,176,231	\$ 10,254	\$ 1,186,485

The following tables summarize the impact of adopting Topic 606 on our consolidated financial statements for the periods indicated below (in thousands):

September 30, 2018	As reported	Adjustments	Balances without adoption of Topic 606
Balance Sheet			
ASSETS			
Accounts receivable, net	\$ 234,906	\$ (15,097)	\$ 219,809
Other current assets	188,931	(80)	188,851
Other non-current assets	766,019	(667)	765,352

Edgar Filing: CBIZ, Inc. - Form 10-Q

Total assets	\$1,189,856	\$ (15,844)	\$1,174,012
LIABILITIES			
Accounts payable	\$57,764	\$ (10,276)	\$47,488
Accrued personnel costs	55,038	(575)	54,463
Other current liabilities	168,995	(114)	168,881
Deferred income taxes, net	5,636	(1,038)	4,598
Other non-current liabilities	300,508	(925)	299,583
Total liabilities	587,941	(12,928)	575,013
STOCKHOLDERS' EQUITY			
Retained earnings	409,467	(2,916)	406,551
Other stockholders' equity	192,448	—	192,448
Total shareholders' equity	601,915	(2,916)	598,999
Total liabilities and stockholders' equity	\$1,189,856	\$ (15,844)	\$1,174,012

9

CBIZ, INC. AND SUBSIDIARIES

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

	Balances		
	without		
	adoption		
	of		
Three Months Ended September 30, 2018			
Income Statement	As		Topic
	reported	Adjustments	606
Revenue	\$224,249	\$ (763)	\$223,486
Operating expenses	198,607	(14)	198,593
Gross margin	25,642	(749)	24,893
Corporate general and administrative expenses	10,279	-	10,279
Operating income	15,363	(749)	14,614
Other (expense) income:			
Interest expense	(1,614)	—	(1,614)
Gain on sale of operations, net	—	—	—
Other income, net	3,143	—	3,143
Total other expense, net	1,529	—	1,529
Income from continuing operations before income tax			
expense	16,892	(749)	16,143
Income tax expense	3,297	(168)	3,129
Income from continuing operations	13,595	(581)	13,014
Loss from discontinued operations, net of tax	(9)	—	(9)
Net income	\$13,586	\$ (581)	\$13,005

	Balances		
	without		
	adoption		
	of		
Nine Months Ended September 30, 2018			
Income Statement	As		Topic
	reported	Adjustments	606
Revenue	\$722,980	\$ (1,744)	\$721,236
Operating expenses	608,459	(43)	608,416
Gross margin	114,521	(1,701)	112,820
Corporate general and administrative expenses	30,300	—	30,300
Operating income	84,221	(1,701)	82,520
Other (expense) income:			
Interest expense	(5,211)	—	(5,211)
Gain on sale of operations, net	663	—	663

Edgar Filing: CBIZ, Inc. - Form 10-Q

Other income, net	2,544	—	2,544
Total other expense, net	(2,004)	—	(2,004)
Income from continuing operations before income tax expense	82,217	(1,701)	80,516
Income tax expense	19,691	(407)	19,284
Income from continuing operations	62,526	(1,294)	61,232
Gain from discontinued operations, net of tax	17	-	17
Net income	\$62,543	\$ (1,294)	\$61,249

10

CBIZ, INC. AND SUBSIDIARIES

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

Nine Months Ended September 30, 2018	Balances		
	As reported	Adjustments	without adoption of
Cash Flow Statement	As reported	Adjustments	Topic 606
Cash flows from operating activities:			
Net income	\$62,543	\$ (1,294)	\$61,249
Adjustments to reconcile net income to net cash provided by operating activities:			
activities:	27,884	—	27,884
Changes in assets and liabilities, net of acquisitions and divestitures:			—
Accounts receivable, net	(38,937)	5,651	(33,286)
Other assets	(3,474)	(61)	(3,535)
Accounts payable	108	(3,995)	(3,887)
Accrued personnel costs	8,986	20	9,006
Other liabilities	(3,134)	(321)	(3,455)
Other	9,458	—	9,458
Operating cash flows provide by continuing operations	63,434	—	63,434
Operating cash flows used in discontinued operations	(162)	—	(162)
Net cash provided by operating activities	63,272	—	63,272
Net provided by investing activities	42,201	—	42,201
Net cash used in financing activities	(102,838)	—	(102,838)
Net increase in cash, cash equivalents and restricted cash	2,635	—	2,635
Cash, cash equivalents and restricted cash at beginning of year	33,409	—	33,409
Cash, cash equivalents and restricted cash at end of period	\$36,044	—	\$36,044

Accounting Standards Not Yet Adopted

Internal-Use Software: In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)," which aligns the requirements for capitalizing implementation costs incurred in a service contract hosting arrangement with those of developing or obtaining internal-use software. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. We are currently evaluating the impact the new standard will have on our consolidated financial position and results of operations.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income: In February 2018, the FASB issued ASU No. 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220)" which allows the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods, with early adoption permitted. We do not expect this guidance to have a material impact on our consolidated financial position or results of operations.

Derivatives and Hedging: In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities.” The new standard improves and simplifies accounting rules for hedge accounting to better present the economic results of an entity’s risk management activities in its financial statements and improves the disclosures of hedging arrangements. Additionally, it simplifies the hedge documentation and effectiveness assessment requirements. The updated guidance is effective for us beginning January 1, 2019. We do not expect this guidance to have a material impact on our consolidated financial position or results of operations.

Leases: In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (the “New Lease Standard”) which amends the current ASC Topic 840, “Leases.” The guidance requires lessees to recognize a right-of-use asset and a lease liability for all leases (with the exception of short-term leases) on their balance sheet at the commencement date and recognize expenses on their income statement similar to the current ASC Topic 840, Leases. The New Lease Standard is effective for fiscal years and interim periods beginning after December 15, 2018. In addition, the FASB issued ASU No. 2018-11, “Leases Targeted Improvements” which provides a package of practical expedients for entities to apply upon adoption. We will adopt this standard effective January 1, 2019.

CBIZ, INC. AND SUBSIDIARIES

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

We are making progress on our project plan to implement the New Lease Standard, including assessing and evaluating our portfolio of active real estate leases and surveying our business units for other leases. Additionally, we are utilizing a lease accounting software solution for both real estate and other leases to support the new reporting requirements. We are currently analyzing key lease agreement terms to extract and load into the lease accounting software solution. Although we are still finalizing our evaluation of the impact of the New Lease Standard, we expect it to have a material effect on our consolidated balance sheet. Based on the future minimum payments under non-cancellable operating leases as of September 30, 2018, we would expect to record approximately \$200 million of lease related assets and liabilities, discounted to fair value, on our consolidated balance sheet with no impact on our equity. The New Lease Standard is not expected to have a material impact on our results of operations, our liquidity or our debt covenant compliance under our current credit agreements.

Note 3. Revenue

In accordance with the new revenue recognition standard requirements, the following table disaggregates our revenue by source (in thousands):

	Three Months Ended September 30, 2018			
	Financial Services	Benefits & Insurance	National Practices	Consolidated
Accounting, tax, advisory and consulting	\$146,145	\$—	\$—	\$146,145
Core Benefits and Insurance Services	—	67,192	—	67,192
Non-core Benefits and Insurance Services	—	2,877	—	2,877
Managed networking, hardware services	—	—	5,902	5,902
National Practices consulting	—	—	2,133	2,133
Total revenue	\$146,145	\$70,069	\$8,035	\$224,249

	Nine Months Ended September 30, 2018			
	Financial Services	Benefits & Insurance	National Practices	Consolidated
Accounting, tax, advisory and consulting	\$478,485	\$—	\$—	\$478,485
Core Benefits and Insurance Services	—	210,292	—	210,292
Non-core Benefits and Insurance Services	—	9,860	—	9,860
Managed networking, hardware services	—	—	18,211	18,211
National Practices consulting	—	—	6,132	6,132
Total revenue	\$478,485	\$220,152	\$24,343	\$722,980

Financial Services

Revenue primarily consists of professional service fees derived from traditional accounting services, tax return preparation, administrative services, financial and risk advisory, consulting and valuation services. Clients are billed for these services based upon a fixed-fee, an hourly rate, or an outcome-based fee. Time related to the performance of all services is maintained in a time and billing system.

Revenue for fixed-fee arrangements is recognized over time with the performance obligation measured in hours worked and anticipated realization. Time and expense arrangement revenue is recognized over time with progress measured towards completion with value being transferred through our hourly fee arrangement at expected net realizable rates per hour, plus agreed-upon out-of-pocket expenses. The cumulative impact on any subsequent revision in the estimated realizable value of unbilled fees for a particular client project is reflected in the period in which the change becomes known. Outcome-based arrangement revenue is fully constrained and recognized when the constraint is lifted at a point in time when the value is determined and verified by a third party.

Benefits and Insurance Services

Core Benefits and Insurance Services consists of group health benefits consulting, property and casualty, retirement plan services and payroll processing services. Revenue consists primarily of fee income for administering health and retirement plans and brokerage commissions. Revenue also includes investment income related to client payroll funds that are held in CBIZ accounts, as is industry practice. Under the new revenue recognition standard, the cost to obtain a contract must be capitalized unless the contract period is one year or less. We have applied a practical expedient related to commissions paid internally and continue to expense the commissions as incurred since the majority of our contract periods are one year or less.

CBIZ, INC. AND SUBSIDIARIES

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

Revenue related to group health benefits consulting consists of (i) commissions, (ii) fee income which can be fixed or variable based on a price per participant and (iii) contingent revenue.

Commission revenue and fee income are recognized over the contract period as these services are provided to clients continuously throughout the term of the arrangement. Our customers benefit from each month of service on its own and although volume and the number of participants may differ month to month, the obligation to perform substantially remains the same.

- Contingent revenue arrangements are related to carrier-based performance targets. Due to the uncertainty of the outcome and the probability that a change in estimate would result in a significant reversal of revenue, we have applied a constraint on recording contingent revenue. Revenue is recognized when the constraint has been lifted which is the earlier of written notification that the target has been achieved or cash collection. Contingent revenue is not a significant revenue stream to our consolidated financial position or results of operations.

Revenue related to property and casualty consists of (i) commissions and (ii) contingent revenue.

Commissions relating to agency billing arrangements (pursuant to which we bill the insured, collect the funds and forward the premium to the insurance carrier less our commission) and direct billing arrangements (pursuant to which the insurance carrier bills the insured directly and forwards the commission to us) are both recognized on the effective date of the policy. Commission revenue is reported net of reserves for estimated policy cancellations and terminations. The cancellation and termination reserve is based upon estimates and assumptions using historical cancellation and termination experience and other current factors to project future experience.

Contingent revenue arrangements related to carrier-based performance targets include claim loss experience and other factors. Due to the uncertainty of the outcome and the probability that a change in estimate would result in a significant reversal of revenue, we have applied a constraint on recording contingent revenue. Revenue is recognized when the constraint has been lifted which is the earlier of written notification that the target has been achieved or cash collection. Contingent revenue is not a significant revenue stream to our consolidated financial position or results of operations.

Revenue related to retirement plan services consist of advisory, third party administration and actuarial services.

Advisory revenue is based on the value of assets under management with fees recognized when the quarterly data becomes available.

Third party administration revenue is recognized over the contract period as these services are provided to clients continuously throughout the term of the arrangement. Our clients benefit from each month of service on its own, and although volume may differ month to month, the obligation to perform substantially remains the same.

Actuarial revenue is recognized over the contract period with performance measured in hours in relation to the expected total hours. Under certain defined benefit plan administration arrangements, we charge new clients an initial, non-refundable, set-up fee as part of a multi-year service agreement. Revenue and costs related to the set-up fees are deferred and recognized over the life of the contract or the expected customer relationship, whichever is longer.

Revenue related to payroll processing consists of a (i) fixed fee or (ii) variable fee based on a price per employee or check processed. Revenue is recognized when the actual payroll processing occurs. Our customers benefit from each month of service on its own and although volume and the variability may differ month to month, the obligation to perform substantially remains the same.

Non-core Benefits and Insurance Services consists of transactional businesses that tend to fluctuate. These include life insurance, wholesale agency benefits and talent and compensation services.

National Practices

Managed networking, hardware services revenue consists of installation, maintenance and repair of computer hardware. These services are charged to a single customer based on cost plus an agreed-upon markup percentage, which has existed since 1999.

National Practices consulting revenue is based upon a fixed fee, an hourly rate, or a percentage of savings. Revenue for fixed fee and time and expense arrangements is recognized over the performance period based upon actual hours incurred.

CBIZ, INC. AND SUBSIDIARIES

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

Transaction Price Allocated to Future Obligations

The new revenue recognition standard requires us to disclose the aggregate amount of transaction price allocated to performance obligations that have not yet been satisfied as of September 30, 2018. The guidance provides certain practical expedients that limit this requirement, including performance obligations that are part of a contract that is one year or less. Since the majority of our contracts are one year or less, we have applied this practical expedient related to quantifying remaining performance obligations.

Note 4. Accounts Receivable, Net

Accounts receivable, net, at September 30, 2018 and December 31, 2017 were as follows (in thousands):

	September 30, 2018	December 31, 2017
Trade accounts receivable	\$ 155,521	\$ 139,730
Unbilled revenue, at net realizable value	93,428	62,397
Total accounts receivable	248,949	202,127
Allowance for doubtful accounts	(14,043)	(13,827)
Accounts receivable, net	\$ 234,906	\$ 188,300

Note 5. Goodwill and Other Intangible Assets, Net

The components of goodwill and other intangible assets, net, at September 30, 2018 and December 31, 2017 were as follows (in thousands):

	September 30, 2018	December 31, 2017
Goodwill	\$ 560,712	\$ 528,424
Intangible assets:		
Client lists	180,320	177,221
Other intangible assets	9,368	8,767
Total intangible assets	189,688	185,988
Total goodwill and intangibles assets	750,400	714,412
Accumulated amortization:		
Client lists	(109,105)	(97,063)
Other intangible assets	(5,093)	(4,143)

Edgar Filing: CBIZ, Inc. - Form 10-Q

Total accumulated amortization	(114,198)	(101,206)
Goodwill and other intangible assets, net	\$ 636,202	\$ 613,206

Note 6. Depreciation and Amortization

Depreciation and amortization expense for property and equipment and intangible assets for the three and nine months ended September 30, 2018 and 2017 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating expenses	\$5,794	\$5,796	\$17,301	\$16,885
Corporate general and administrative expenses	58	92	227	282
Total depreciation and amortization expense	\$5,852	\$5,888	\$17,528	\$17,167

Note 7. Debt and Financing Arrangements

On April 3, 2018, we amended and restated our \$400 million unsecured credit facility (as so amended and restated, the “2018 credit facility”), by and among CBIZ Operations, Inc., CBIZ, Inc., and Bank of America, N.A., as

CBIZ, INC. AND SUBSIDIARIES

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

administrative agent and bank, and other participating banks. The 2018 credit facility amends and restates our credit agreement (prior to being amended and restated by the 2018 credit facility, the “2014 credit facility”), dated as of July 28, 2014, as amended by the First Amendment to credit agreement, dated as of April 10, 2015, and as amended by the Second Amendment to credit agreement, as filed on November 3, 2015.

The 2018 credit facility extends the maturity date from 2019 to 2023, and continues to provide for a \$400 million revolving loan commitment. The 2018 credit facility improves our borrowing margin related to leverage ratio and increases the flexibility of certain covenant baskets, as compared to the 2014 credit facility. In connection with our 2018 credit facility, we incurred approximately \$1.1 million of financing costs during the second quarter of 2018, which have been deferred as other assets on our Consolidated Balance Sheets. These deferred financing costs are being amortized as interest expense on a straight line basis over the term of 2018 credit facility.

The 2018 credit facility provides us with the capital necessary to meet our working capital needs as well as the flexibility to continue with our strategic initiatives, including business acquisitions and share repurchases.

On August 16, 2018, we entered into an unsecured \$20 million line of credit (“line of credit”) with a bank participating in our 2018 credit facility. This line of credit will be used to support our short-term funding requirements of payroll client fund obligations due to the investment of client funds, rather than liquidating client funds that have already been invested in available-for-sale securities. Refer to Note 9, Financial Instruments, for further discussion regarding these investments. The line of credit, which terminates August 16, 2019, did not have a balance outstanding at September 30, 2018. Borrowings under the line of credit bear interest at the prime rate.

In addition to the discussion below, refer to our Annual Report on Form 10-K for the year ended December 31, 2017 for additional details of our debt and financing arrangements.

Bank Debt

The balance outstanding under the 2018 credit facility and the 2014 credit facility was \$167.1 million and \$178.5 million at September 30, 2018 and December 31, 2017, respectively.

Rates for the nine months ended September 30, 2018 and 2017 were as follows:

	Nine Months Ended	
	September 30,	
	2018	2017
Weighted average rates	3.07%	2.67%
Range of effective rates	2.37% - 5.25%	2.19% - 4.75%

We have approximately \$226 million of available funds under the 2018 credit facility at September 30, 2018, net of outstanding letters of credit of \$0.9 million. As of September 30, 2018, we were in compliance with our debt covenants.

Interest Expense

During the three months ended September 30, 2018 and 2017, interest expense under the 2018 credit facility and the 2014 credit facility was \$1.6 million and \$1.8 million, respectively. During the nine months ended September 30, 2018 and 2017, interest expense under the 2018 credit facility and 2014 credit facility was \$5.2 million and \$5 million, respectively.

CBIZ, INC. AND SUBSIDIARIES

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

Note 8. Commitments and Contingencies

Letters of Credit and Guarantees

We provide letters of credit to landlords (lessors) of our leased premises in lieu of cash security deposits, which totaled \$0.9 million and \$2.3 million at September 30, 2018 and December 31, 2017, respectively. In addition, we provide license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding was \$2.9 million and \$2.5 million at September 30, 2018 and December 31, 2017, 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, P.C. (“Mayer Hoffman”), 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 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 million.

We 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, we intend to vigorously defend these cases.

In addition to those items disclosed above, we are, 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)

Note 9. Financial Instruments

Bonds

We held corporate and municipal bonds with par values totaling \$51.5 million and \$49.5 million at September 30, 2018 and December 31, 2017, respectively. All bonds are investment grade and are classified as available-for-sale. These bonds have maturity or callable dates ranging from October 2018 through November 2023, and are included in “Funds held for clients – current” in the accompanying Consolidated Balance Sheets based on our intent and ability to sell these investments at any time under favorable conditions. The following table summarizes our bond activity for the nine months ended September 30, 2018 and the twelve months ended December 31, 2017 (in thousands):

	Nine Months Ended September 30, 2018	Twelve Months Ended December 31, 2017
Fair value at beginning of period	\$ 51,101	\$ 44,573
Purchases	10,745	15,546
Redemptions	(1,331)	(940)
Maturities	(7,370)	(7,845)
Decrease in bond premium	(219)	(160)
Fair market value adjustment	(538)	(73)
Fair value at end of period	\$ 52,388	\$ 51,101

Interest Rate Swaps

We do 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 the London Interbank Offered Rate (“LIBOR”) and pay the counterparties a fixed rate. See our Annual Report on Form 10-K for the year ended December 31, 2017 for further discussion on our interest rate swaps.

During the second quarter of 2018, we entered into an additional interest rate swap with a notional value of \$15 million at a fixed interest rate of 2.64% maturing in 5 years.

The following table summarizes our outstanding interest rate swaps and their classification in the accompanying Consolidated Balance Sheets at September 30, 2018 and December 31, 2017 (in thousands):

September 30, 2018

Edgar Filing: CBIZ, Inc. - Form 10-Q

	Notional Amount	Fair Value	Balance Sheet Location
Interest rate swaps	\$70,000	\$2,089	Other non-current assets
Interest rate swaps	\$15,000	\$21	Other current assets

December 31, 2017

	Notional Amount	Fair Value	Balance Sheet Location
Interest rate swaps	\$55,000	\$1,055	Other non-current assets
Interest rate swaps	\$15,000	\$76	Other current assets

Under the terms of the interest rate swaps, we pay interest at a fixed rate of interest plus applicable margin as stated in the agreement, and receive interest that varies with the one-month LIBOR. The notional value, fixed rate of interest and expiration date of each interest rate swap as of September 30, 2018 is (i) \$15 million – 1.155% -November 2018, (ii) \$25 million – 1.300% - October 2020, (iii) \$10 million – 1.120% - February 2021, (iv) \$20 million – 1.770% - May 2022, and (v) \$15 million – 2.64% - June 2023. Refer to Note 10, Fair Value Measurements, for additional disclosures regarding fair value measurements.

CBIZ, INC. AND SUBSIDIARIES

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

The following table summarizes the effects of the interest rate swaps on the accompanying Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Gain Recognized		(Loss) Gain Reclassified	
	in AOCL, net of tax		from AOCL into Expense	
	Three Months Ended		Three Months Ended	
	September 30, 2018		September 30, 2017	
Interest rate swap	\$ 123	\$ 11	\$ (104)	\$ 20
	Nine Months Ended		Nine Months Ended	
	September 30, 2018		September 30, 2017	
Interest rate swap	\$ 749	\$ 82	\$ (229)	\$ 120

Note 10. Fair Value Measurements

The following table summarizes our assets and liabilities at September 30, 2018 and December 31, 2017, respectively, 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 us to determine such fair value (in thousands):

	Level	September 30, 2018	December 31, 2017
Deferred compensation plan assets	1	\$ 93,310	\$ 85,589
Corporate and municipal bonds	1	\$ 52,388	\$ 51,101
Deferred compensation plan liabilities	1	\$ (93,310)	\$ (85,589)
Interest rate swaps	2	\$ 2,110	\$ 1,131
Contingent purchase price liabilities	3	\$ (39,896)	\$ (37,574)

During the nine months ended September 30, 2018 and 2017, 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 our contingent purchase price

liabilities for the nine months ended September 30, 2018 and 2017 (pre-tax basis) (in thousands):

	2018	2017
Beginning balance – January 1	\$(37,574)	\$(33,709)
Additions from business acquisitions	(12,361)	(17,526)
Settlement of contingent purchase price liabilities	13,329	11,644
Change in fair value of contingencies	(2,574)	651
Change in net present value of contingencies	(716)	(430)
Ending balance – September 30	\$(39,896)	\$(39,370)

Contingent Purchase Price Liabilities

Contingent purchase price liabilities result from our business acquisitions and are recorded at fair value at the time of acquisition in “Contingent purchase price liability — current” and “Contingent purchase price liability — non-current” in the accompanying Consolidated Balance Sheets. We estimate the fair value of our contingent purchase price liabilities using a probability-weighted discounted cash flow model. This fair value measure is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Fair value measurements characterized within Level 3 of the fair value hierarchy are measured based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

We probability weight risk-adjusted estimates of future performance of acquired businesses, then calculate the contingent purchase price based on the estimates and discount them to present value representing management’s best estimate of fair value. The fair value of the contingent purchase price liabilities are reassessed on a quarterly basis based on assumptions provided by practice group leaders and business unit controllers together with our corporate finance department. Any change in the fair value estimate is recorded in the earnings of that period. Refer to Note 14, Acquisitions, for further discussion of our acquisitions and contingent purchase price liabilities.

CBIZ, INC. AND SUBSIDIARIES

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

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

Note 11. Other Comprehensive Income

The following table is a summary of other comprehensive income and discloses the tax impact of each component of other comprehensive income for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net unrealized (loss) gain on available-for-sale securities, net of income taxes (1)	\$ (65)	\$ 11	\$ (391)	\$ 162
Net unrealized gain on interest rate swaps, net of income taxes (2)	123	11	749	82
Foreign currency translation	(3)	(6)	(15)	(11)
Total other comprehensive income	\$ 55	\$ 16	\$ 343	\$ 233

(1) Net of income tax (benefit) expense of (\$24) and \$7 for the three months ended September 30, 2018 and 2017, respectively, and net of income tax (benefit) expense of (\$145) and \$108 for the nine months ended September 30, 2018 and 2017, respectively.

(2) Net of income tax expense of \$38 and \$6 for the three months ended September 30, 2018 and 2017, respectively, and net of income tax expense of \$230 and \$48 for the nine months ended September 30, 2018 and 2017, respectively.

Accumulated other comprehensive income (loss), net of tax, was approximately \$0.2 million and (\$0.2) million for the period ending September 30, 2018 and December 31, 2017, respectively. Accumulated other comprehensive income (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.

Note 12. Employee Share Plans

We grant various share-based awards under the CBIZ, Inc. 2014 Stock Incentive Plan (the “2014 Plan”), which expires in 2024. The terms and vesting schedules for the share-based awards vary by type and date of grant. 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, 2018 and 2017 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock options	\$531	\$527	\$2,078	\$1,578
Restricted stock awards	978	930	3,280	2,669
Total stock-based compensation expense	\$1,509	\$1,457	\$5,358	\$4,247

CBIZ, INC. AND SUBSIDIARIES

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

Stock award activity during the nine months ended September 30, 2018 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	3,844	\$ 9.67	724	\$ 11.78
Granted	642	\$ 19.45	272	\$ 18.77
Exercised or released	(840)	\$ 7.24	(364)	\$ 11.18
Expired or canceled	—	\$ —	—	\$ —
Outstanding at September 30, 2018	3,646	\$ 11.95	632	\$ 15.35
Exercisable at September 30, 2018	2,035	\$ 9.21		

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

We 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 2018 was \$4.73. The following weighted average assumptions were utilized:

	Nine Months Ended September 30, 2018	
Expected volatility (1)	22.04	%
Expected option life (years) (2)	4.62	
Risk-free interest rate (3)	2.80	%
Expected dividend yield (4)	0.00	%

- (1) The expected volatility assumption was determined based upon the historical volatility of our stock price, using daily price intervals.
- (2) The expected option life was determined based upon our historical data using a midpoint scenario, which assumes all options are exercised halfway between the expiration date and the weighted average time for 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 our historical and estimated dividend payouts. We do not expect to change our dividend payout policy in the foreseeable future.

CBIZ, INC. AND SUBSIDIARIES

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

Note 13. 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, 2018 and 2017 (in thousands, except per share data).

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Numerator:				
Income from continuing operations	\$ 13,595	\$ 9,864	\$ 62,526	\$ 46,306
Denominator:				
Basic				
Weighted average common shares outstanding	54,794	54,142	54,489	53,804
Diluted				
Stock options (1)	1,654	1,433	1,573	1,499
Restricted stock awards (1)	268	244	307	330
Contingent shares (2)	24	8	24	8
Diluted weighted average common shares				
outstanding	56,740	55,827	56,393	55,641
Basic earnings per share from continuing operations	\$ 0.25	\$ 0.18	\$ 1.15	\$ 0.86
Diluted earnings per share from continuing operations	\$ 0.24	\$ 0.18	\$ 1.11	\$ 0.83

- (1) A total of 0.5 million and 0.3 million share based awards were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2018, respectively, and a total of 0.8 million and 0.4 million share based awards were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2017, 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 us once future considerations have been met. Refer to Note 14, Acquisitions, for further details.

Note 14. Acquisitions

Our acquisition strategy focuses on businesses with a leadership team that is committed to best in class culture, extraordinary client service and cross-serving potential. We have a long history of acquiring businesses that share common cultural values with us and provide value-added services to the small and midsize business market. The valuation of any business is a subjective process and includes industry, geography, profit margins, expected cash flows, client retention, nature of recurring or non-recurring project-based work, growth rate assumptions and

competitive market conditions.

2018

During the first half of 2018, we acquired substantially all of the assets of two businesses; InR Advisory Services, LLC (“InR”), effective April 1, 2018, and Laurus Transaction Advisors, LLC (“Laurus”), effective February 1, 2018. InR, located in Media, Pennsylvania, provides investment advisory services for public and private sector clients and non-profit organizations. Operating results of InR are reported in the Benefits and Insurance Services practice group. Laurus, located in Denver, Colorado, provides financial and accounting due diligence and advisory services with respect to mergers and acquisition transactions to private equity groups and public and private sector companies. Operating results for Laurus are reported in the Financial Services practice group.

Aggregate consideration for the InR and Laurus acquisitions consisted of approximately \$23.4 million in cash consideration, \$0.9 million in CBIZ common stock and \$12.4 million in contingent consideration. Under the terms of these acquisition agreements, a portion of the purchase price is contingent on future performance of the business acquired. The maximum potential undiscounted amount of all future payments that we could be required to make under the contingent arrangements is \$12.4 million, of which \$3.4 million was recorded in “Contingent purchase price liability – current” and \$9 million was recorded in “Contingent purchase price liability – non-current” in the

21

CBIZ, INC. AND SUBSIDIARIES

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

accompanying Consolidated Balance Sheets at September 30, 2018. Refer to Note 10, Fair Value Measurements, for additional information regarding contingent purchase price liability fair value and fair value adjustments.

Annualized revenue for these acquisitions is estimated to be approximately \$9.1 million. Pro forma results of operations for these acquisitions have not been presented because the effects of the acquisitions were not significant to our “Income from continuing operations before income taxes.”

2017

During the first half of 2017, we acquired substantially all of the assets of three businesses; CMF Associates, LLC (“CMF”), effective June 1, 2017, Slaton Insurance (“Slaton”), effective June 1, 2017, and Pacific Coastal Pension and Insurance Services, Inc. (“Pacific Coastal”), effective February 1, 2017. CMF, located in Philadelphia, provides various financial consulting, executive search and deal origination services. Operating results of CMF are reported in the Financial Services practice group. Slaton, located in West Palm Beach, Florida, is a full service insurance brokerage firm offering clients a complete line of services including commercial lines, risk management and employee benefits. Pacific Coastal, located in Morgan Hill, California, provides defined contribution third party administrative and consulting services. Operating results for both Slaton and Pacific Coastal are reported in the Benefits and Insurance Services practice group.

Aggregate consideration for these acquisitions consisted of approximately \$23.7 million in cash consideration, \$2 million in CBIZ common stock and \$17.5 million in contingent consideration. The maximum potential undiscounted amount of all future payments that we could be required to make under the contingent arrangements is \$17.5 million, of which \$5.9 million was recorded in “Contingent purchase price liability – current” and \$11.6 million was recorded in “Contingent purchase price liability – non-current” in the accompanying Consolidated Balance Sheets at September 30, 2017.

Annualized revenue for these acquisitions is estimated to be approximately \$23.2 million. Pro forma results of operations for these acquisitions have not been presented because the effects of the acquisitions were not significant to our “Income from continuing operations before income taxes.”

The following table summarizes the amounts of identifiable assets acquired, liabilities assumed and aggregate purchase price for the acquisitions for the nine months ended September 30, 2018 and 2017 (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Cash	\$306	\$843
Accounts receivable, net	1,920	4,338
Property and equipment, net	—	24
Other assets	12	151
Identifiable intangible assets	3,864	3,115
Current liabilities	(1,717)	(4,716)

Edgar Filing: CBIZ, Inc. - Form 10-Q

Total identifiable net assets	\$4,385	\$3,755
Goodwill	32,255	39,460
Aggregate purchase price	\$36,640	\$43,215

The goodwill of \$32.3 million and \$39.5 million arising from the acquisitions in the first nine months of 2018 and 2017, respectively, primarily resulted from expected future earnings and cash flows from the existing management team, as well as the synergies created by the integration of the new business within our organization, including cross-selling opportunities expected with our Financial Services practice group and the Benefits and Insurance Services practice group, to help strengthen our existing service offerings and expand our market position. All of the goodwill is deductible for income tax purposes.

Client Lists

During the nine months ended September 30, 2018, we purchased one client list, reported in the Financial Services practice group, for \$0.3 million of contingent consideration. During the same period in 2017, we purchased two client lists, one of which is reported in the Benefits and Insurance practice group for \$0.7 million of contingent consideration and one of which is reported in the Financial Services practice group for \$0.7 million of contingent considerations.

CBIZ, INC. AND SUBSIDIARIES

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

Change in Contingent Purchase Price Liability for Previous Acquisitions

During the first nine months of 2018 and 2017, the fair value of the contingent purchase price liability related to prior acquisitions increased by \$3.3 million and decreased by \$0.2 million, respectively. The change in fair value during 2018 is mostly attributable to the change in stock price related to the mark-to-market adjustment of future common stock issuances, while the change in fair value during 2017 was due to a subsequent measurement adjustment based on projected future results of the acquired businesses. These adjustments are included in “Other income, net” in the accompanying Consolidated Statements of Comprehensive Income.

Contingent Payments for Previous Acquisitions and Client Lists

We paid \$11 million in cash and issued approximately 0.1 million shares of our common stock during the nine months ended September 30, 2018 for previous acquisitions, compared to \$4.8 million in cash and approximately 0.2 million shares of our common stock during the same period in 2017. For the first nine months of 2018 and 2017, we paid approximately \$1.1 million and \$1 million in cash for previous client list purchases.

Note 15. Discontinued Operations and Divestitures

We will divest (through sale or closure) business operations that do not contribute to our long-term objectives for growth, or that are not complementary to our target service offerings and markets. Discontinued operations primarily consisted of two small businesses under the Financial Services segment that were sold in 2015. During the first nine months of both 2018 and 2017, we did not discontinue the operations of any of our businesses. Divested operations and assets that do not qualify for treatment as discontinued operations are recorded as “Gain on sale of operations, net” in the accompanying Consolidated Statements of Comprehensive Income. We recorded a gain of \$0.7 million in the first nine months of 2018, related to a small book of business under the Benefits and Insurance Services practice group.

Note 16. Segment Disclosures

Our business units have been aggregated into three practice groups: Financial Services, Benefits and Insurance Services and National Practices. The business units have been aggregated based on the following factors: similarity of the products and services provided to clients; similarity of the regulatory environment in which they operate; and similarity of economic conditions affecting long-term performance. The business units are managed along these segment lines. A general description of services provided by each practice group is provided in the table below.

Financial Services	Benefits and Insurance Services	National Practices
<ul style="list-style-type: none">Accounting and Tax		

- Government Healthcare Consulting
- Financial Advisory
- Valuation
- Risk & Advisory Services
- Group Health Benefits Consulting
- Payroll
- Property & Casualty
- Retirement Plan Services
- Managed Networking and Hardware Services
- Healthcare Consulting

Corporate and Other. Included in “Corporate and Other” are operating expenses that are not directly allocated to the individual business units. These expenses are primarily comprised of certain health care costs, gains or losses attributable to assets held in our non-qualified deferred compensation plan, share-based compensation, consolidation and integration charges, certain professional fees, certain advertising costs and other various expenses.

Accounting policies of the practice groups are the same as those described in Note 1, Basis of Presentation and Significant Accounting Policies, to the Annual Report on Form 10-K for the year ended December 31, 2017. Upon consolidation, intercompany accounts and transactions are eliminated, thus inter-segment revenue is not included in the measure of profit or loss for the practice groups. Performance of the practice groups is evaluated on operating income excluding those costs listed above, which are reported in the “Corporate and Other” segment.

CBIZ, INC. AND SUBSIDIARIES

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

Segment information for the three and nine months ended September 30, 2018 and 2017 is presented below. We do not manage our assets on a segment basis, therefore segment assets are not presented below.

	Three Months Ended September 30, 2018					Total
	Benefits and		National	Corporate		
	Financial	Insurance		Other		
	Services	Services	Practices			
Revenue	\$ 146,145	\$ 70,069	\$ 8,035	\$ —		\$ 224,249
Operating expenses	124,546	59,399	7,514	7,148		198,607
Gross margin	21,599	10,670	521	(7,148)		25,642
Corporate general & admin	—	—	—	10,279		10,279
Operating income (loss)	21,599	10,670	521	(17,427)		15,363
Other (expense) income:						
Interest expense	—	(7)	—	(1,607)		(1,614)
Other (expense) income, net	(142)	129	—	3,156		3,143
Total other (expense) income	(142)	122	—	1,549		1,529
Income (loss) from continuing operations before						
income tax expense	\$ 21,457	\$ 10,792	\$ 521	\$ (15,878)		\$ 16,892

	Three Months Ended September 30, 2017					Total
	Benefits and		National	Corporate		
	Financial	Insurance		Other		
	Services	Services	Practices			
Revenue	\$ 130,305	\$ 69,663	\$ 7,755	\$ —		\$ 207,723
Operating expenses	112,996	59,155	7,109	5,463		184,723
Gross margin	17,309	10,508	646	(5,463)		23,000
Corporate general & admin	—	—	—	7,979		7,979
Operating income (loss)	17,309	10,508	646	(13,442)		15,021
Other income (expense):						
Interest expense	—	(10)	—	(1,767)		(1,777)
Other income, net	79	82	—	2,631		2,792
Total other income	79	72	—	864		1,015
Income (loss) from continuing operations before	\$ 17,388	\$ 10,580	\$ 646	\$ (12,578)		\$ 16,036

income tax expense

Segment information for the nine months ended September 30, 2018 and 2017 was as follows (in thousands):

	Nine Months Ended September 30, 2018				Total
	Financial Services	Benefits and Insurance Services	National Practices	Corporate and Other	
Revenue	\$478,485	\$220,152	\$24,343	\$—	\$722,980
Operating expenses	386,649	181,697	22,356	17,757	608,459
Gross margin	91,836	38,455	1,987	(17,757)	114,521
Corporate general & admin	—	—	—	30,300	30,300
Operating income (loss)	91,836	38,455	1,987	(48,057)	84,221
Other income (expense):					
Interest expense	—	(96)	—	(5,115)	(5,211)
Gain on sale of operations, net	—	—	—	663	663
Other income, net	106	351	—	2,087	2,544
Total other income (expense)	106	255	—	(2,365)	(2,004)
Income (loss) from continuing operations before					
income tax expense	\$91,942	\$38,710	\$1,987	\$(50,422)	\$82,217

24

CBIZ, INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30, 2017					Total
	Financial Services	Benefits and Insurance		National Practices	Corporate and Other	
		Services	Insurance			
Revenue	\$421,529	\$215,386	\$23,283	\$—		\$660,198
Operating expenses	348,236	179,174	21,351	16,848		565,609
Gross margin	73,293	36,212	1,932	(16,848)		94,589
Corporate general & admin	—	—	—	25,979		25,979
Operating income (loss)	73,293	36,212	1,932	(42,827)		68,610
Other income (expense):						
Interest expense	—	(30)	—	(4,956)		(4,986)
Gain on sale of operations, net	—	—	—	45		45
Other income (expense), net	122	298	(9)	8,882		9,293
Total other income (expense)	122	268	(9)	3,971		4,352
Income (loss) from continuing operations before						
income tax expense	\$73,415	\$36,480	\$1,923	\$(38,856)		\$72,962

Note 17. Subsequent Events

Subsequent to September 30, 2018 and through October 31, 2018, we repurchased approximately 0.1 million shares in the open market at a total cost of \$1.4 million under our current Rule 10b5-1 trading plan.

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", "us", "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 our financial position at September 30, 2018 and December 31, 2017, results of operations for the three months and nine months ended September 30, 2018 and 2017, and cash flows for the nine months ended September 30, 2018 and 2017, and should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2017. This discussion and analysis contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in "Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q and in "Item 1A. Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2017.

OUR BUSINESS

We provide professional business services, products and solutions that help our clients grow and succeed by better managing their finances and employees. These services are provided to businesses of various sizes, as well as individuals, governmental entities and not-for-profit enterprises throughout the United States and parts of Canada. We deliver integrated services through three practice groups: Financial Services, Benefits and Insurance Services, and National Practices. Refer to Note 16, Segment Disclosures, to the accompanying consolidated financial statements for a general description of services provided by each practice group.

Refer to the Annual Report on Form 10-K for the year ended December 31, 2017 for further discussion of our business and strategies, as well as the external relationships and regulatory factors that currently impact our operations.

Executive Summary

Revenue for the three months ended September 30, 2018 increased \$16.5 million, or 8%, to \$224.2 million from \$207.7 million for the same period in 2017. The increase in revenue was attributable to an increase in same-unit revenue of \$13 million, or 6.3%, and newly acquired operations of \$3.5 million, or 1.7%.

Revenue for the nine months ended September 30, 2018 increased \$62.8 million, or 9.5%, to \$723 million from \$660.2 million for the same period in 2017. The increase in revenue was attributable to an increase in same-unit revenue of \$39.4 million, or 6%, and newly acquired operations of \$23.4 million, or 3.5%. A detailed discussion of revenue by practice group is included under "Operating Practice Groups."

Income from continuing operations was \$13.6 million, or \$0.24 per diluted share, for the three months ended September 30, 2018, compared to \$9.9 million, or \$0.18 per diluted share, for the same period in 2017. For the nine months ended September 30, 2018, income from continuing operations was \$62.5 million, or \$1.11 per diluted share, compared to \$46.3 million, or \$0.83 per diluted share, for the same period in 2017. Refer to "Results of Operations – Continuing Operations" for a detailed discussion of the components of income from continuing operations.

Strategic Use of Capital

Our first priority for the use of capital is to make strategic acquisitions. We have the financing flexibility and the capacity to carry out an active acquisition program. Refer to Note 14, Acquisitions, to the accompanying consolidated financial statements for further discussion on acquisitions. We also take an opportunistic approach towards using

funds to repurchase shares.

In the first quarter of 2018, the CBIZ Board of Directors authorized the purchase of up to 5 million shares of our common stock under our Share Repurchase Program (the “Share Repurchase Program”), which may be suspended or discontinued at any time and expires on April 1, 2019. The shares may be purchased in open market, privately negotiated or Rule 10b5-1 trading plan purchases, which may include purchases from our employees, officers and directors, in accordance with the Securities and Exchange Commission (the “SEC”) rules. CBIZ management will determine the timing and amount of the transactions based on its evaluation of market conditions and other factors.

•We repurchased approximately 0.2 million shares of our common stock at a total aggregate cost of approximately \$3.7 million during the three months ended September 30, 2018. During the nine months ended September 30, 2018 we repurchased approximately 0.3 million shares of our common stock at a total cost of approximately \$6.2 million.

26

Amended and Restated Credit Agreement

On April 3, 2018, we amended and restated our \$400 million unsecured credit facility (as so amended and restated, the “2018 credit facility”) by and among CBIZ Operations, Inc., CBIZ, Inc., and Bank of America, N.A., as administrative agent and bank, and other participating banks. The 2018 credit facility amends and restates the previous credit facility, extends the maturity date from 2019 to 2023, and continues to provide for a \$400 million revolving loan commitment. The 2018 credit facility improves our borrowing margin and increases the flexibility of certain covenant baskets, as compared to the previous credit facility.

Adoption of ASU 2015-14 – Revenue from Contracts with Customers

On January 1, 2018, we adopted the new accounting standard, “Revenue from Contracts with Customers” (“Topic 606”) and all of the related amendments. We recognized the cumulative effect of initially applying Topic 606 as an increase of \$1.6 million to the opening balance of retained earnings. Revenue recognition is consistent under both the legacy standard and Topic 606 for the majority of our revenue streams, with the exception of two business units within our Benefits and Insurance Services practice group. The revenue recognition policies in our Benefits and Insurance Services practice group have been modified under the new standard. Refer to Note 2, New Accounting Pronouncements, and Note 3, Revenue, to the accompanying condensed consolidated financial statements for further discussion on Topic 606.

Tax Cuts and Jobs Act of 2017 (the “Tax Act”)

On December 22, 2017, the Tax Act was signed into law, which reduced the maximum corporate income tax rate from 35% to 21% beginning in 2018. As a result, our effective tax rate was 23.95% for the first nine months of 2018 compared to 36.53% for the first nine months of 2017. As a result of the Tax Act, our diluted earnings per share from continuing operations increased by \$0.04 during the third quarter of 2018 and by \$0.17 during the nine months ended September 30, 2018.

Recent Accomplishments and Other Events

Line Of Credit – On August 16, 2018, we entered into an unsecured \$20 million line of credit (“line of credit”) with a bank participating in our 2018 credit facility. This line of credit will be used to support our short-term funding requirements of payroll client fund obligations due to the investment of client funds, rather than liquidating client funds that have already been invested in available-for-sale securities. Refer to Note 9, Financial Instruments, to the accompanying consolidated financial statements for further discussion regarding these investments. The line of credit, which terminates August 16, 2019, did not have a balance outstanding at September 30, 2018. Borrowings under the line of credit bear interest at the prime rate. Refer to Note 7, Debt and Financing Arrangements, to the accompanying consolidated financial statements for further discussion regarding the line of credit.

National Marketing Campaign – In August 2018, we launched a national marketing campaign using television, digital and online advertisements in our major markets throughout the United States. It is designed to create brand awareness with prospective clients, as well as with target companies and potential new hires. The campaign will continue through the end of 2018 and then again in the Spring and Fall of 2019.

Best Places to Work – We were selected and honored for the fourth year in a row as a “Best Places to Work in Insurance” by Business Insurance magazine based on our commitment to attracting, developing and retaining great talent through employee benefits and other programs. We were recognized for this award based on core focus areas such as leadership and planning, corporate culture, communications, work environment and overall engagement.

Results of Operations – Continuing Operations

Revenue

The following tables summarize total revenue for the three and nine months ended September 30, 2018 and 2017 (in thousands except percentages).

	Three Months Ended September 30,							
	% of		% of		\$	%		
	2018	Total	2017	Total	Change	Change		
Financial Services	\$146,145	65.2 %	\$130,305	62.7 %	\$15,840	12.2 %		
Benefits and Insurance Services	70,069	31.2 %	69,663	33.6 %	406	0.6 %		
National Practices	8,035	3.6 %	7,755	3.7 %	280	3.6 %		
Total CBIZ	\$224,249	100.0 %	\$207,723	100.0 %	\$16,526	8.0 %		

	Nine Months Ended September 30,							
	% of		% of		\$	%		
	2018	Total	2017	Total	Change	Change		
Financial Services	\$478,485	66.2 %	\$421,529	63.9 %	\$56,956	13.5 %		
Benefits and Insurance Services	220,152	30.5 %	215,386	32.6 %	4,766	2.2 %		
National Practices	24,343	3.3 %	23,283	3.5 %	1,060	4.6 %		
Total CBIZ	\$722,980	100.0 %	\$660,198	100.0 %	\$62,782	9.5 %		

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

Operating Expenses

	Three Months Ended September 30,			
	\$		%	
	2018	2017	Change	Change
	(In thousands, except percentages)			
Operating expenses	\$198,607	\$184,723	\$13,884	7.5 %
Operating expenses % of revenue	88.6 %	88.9 %		(30 bps)

	Nine Months Ended September 30,			
	\$		%	
	2018	2017	Change	Change
	(In thousands, except percentages)			

	(In thousands, except percentages)			
Operating expenses	\$608,459	\$565,609	\$42,850	7.6 %
Operating expenses % of revenue	84.2 %	85.7 %		(150 bps)

Non-qualified Deferred Compensation Plan

We sponsor a non-qualified deferred compensation plan, under which a CBIZ employee's compensation deferral is held in a rabbi trust and invested accordingly as directed by the employee. Income and expenses related to the non-qualified deferred compensation plan are included in "Operating expenses", "Gross margin" and "Corporate general and administrative expenses" and are directly offset by deferred compensation gains or losses in "Other income (expense), net" in the accompanying Consolidated Statements of Comprehensive Income. The non-qualified deferred compensation plan has no impact on "Income from continuing operations before income tax expense" or diluted earnings per share from continuing operations.

Three months ended September 30, 2018 compared to September 30, 2017. The majority of our operating expenses relate to personnel costs, which includes (i) salaries and benefits, (ii) commissions paid to producers (iii) incentive compensation and (iv) share-based compensation. Operating costs as a percentage of revenue decreased in the third quarter of 2018 primarily due to leveraging personnel costs and other operating expenses with the increase in revenue.

The increase in our operating costs is primarily due an increase in personnel costs of \$13.4 million, or 9.4%, as a result of higher incentive-based compensation attributable to our performance in 2018, and also to support our growth in revenue. Personnel costs are discussed in further detail under "Operating Practice Groups."

The non-qualified deferred compensation added expense of \$3 million in the three months ended September 30, 2018 compared to expense of \$2.7 million during the same period in 2017. Excluding the non-qualified deferred compensation expenses, operating expenses would have been \$195.6 million and \$182 million, or 87.2% and 87.6% of revenue, for the three months ended September 30, 2018 and 2017, respectively. The remaining fluctuation consists of other operating expenses, none of which are individually significant.

Nine months ended September 30, 2018 compared to September 30, 2017. The increase in operating costs and the decrease as a percentage of revenue for the nine months ended September 30, 2018 was due to the same factors as discussed above in the quarterly section. Personnel costs increased \$40.5 million, or 9.2%, with acquisitions contributing \$12.3 million to personnel costs. Travel-related expenses, mostly attributable to the growth in our advisory business in the Financial Services practice group, contributed an increase of \$3.2 million, or 16%. The remaining fluctuation consists of other operating expenses, none of which are individually significant.

The non-qualified deferred compensation added expense of \$4.7 million for the nine months ended September 30, 2018 compared to expense of \$7.6 million during the same period in 2017. Excluding the non-qualified deferred compensation expenses, operating expenses would have been \$603.7 million and \$558 million, or 83.5% and 84.5% of revenue, for the nine months ended September 30, 2018 and 2017, respectively.

Corporate General & Administrative (“G&A”) Expenses

	Three Months Ended September 30,			
	\$		%	
	2018	2017	Change	Change
	(In thousands, except percentages)			
G&A expenses	\$10,279	\$7,979	\$2,300	28.8 %
G&A expenses % of revenue	4.5 %	3.8 %		70 bps

	Nine Months Ended September 30,			
	\$		%	
	2018	2017	Change	Change
	(In thousands, except percentages)			
G&A expenses	\$30,300	\$25,979	\$4,321	16.6 %
G&A expenses % of revenue	4.2 %	3.9 %		30 bps

Three months ended September 30, 2018 compared to September 30, 2017. The increase in our G&A expenses is primarily due to an increase in personnel costs of \$1.8 million, or 48.5%, as a result of higher incentive-based compensation attributable to our performance in 2018, as well as an increase in marketing costs of \$0.6 million due to our national marketing campaign launched during the three months ended September 30, 2018. G&A expenses, excluding the impact of the non-qualified deferred compensation plan, would have been \$9.9 million and \$7.7 million, or 4.4% and 3.7% of revenue, for the three months ended September 30, 2018 and 2017, respectively.

Nine months ended September 30, 2018 compared to September 30, 2017. The increase in our G&A expenses for the nine months ended September 30, 2018 is primarily due to the same factors as discussed above in the quarterly

section. Personnel costs increased by \$3.7 million, or 25.6%, while marketing costs increased \$0.7 million. G&A expenses, excluding the impact of the non-qualified deferred compensation plan, would have been \$29.8 million and \$25.2 million, or 4.1% and 3.8% of revenue, for the nine months ended September 30, 2018 and 2017, respectively.

Other (Expense) Income, Net

	Three Months Ended September 30,			
			\$	%
	2018	2017	Change	Change
	(In thousands, except percentages)			
Interest expense	\$(1,614)	\$(1,777)	\$ 163	(9.2)%
Other income, net	3,143	2,792	351	12.6 %
Total other income, net	\$ 1,529	\$ 1,015	\$ 514	50.6 %

	Nine Months Ended September 30,			
			\$	%
	2018	2017	Change	Change
	(In thousands, except percentages)			
Interest expense	\$ (5,211)	\$ (4,986)	\$ (225)	4.5 %
Gain on sale of operations, net	663	45	618	NM
Other income, net	2,544	9,293	(6,749)	(72.6)%
Total other (expense) income, net	\$ (2,004)	\$ 4,352	\$ (6,356)	(146.0)%

Interest Expense

Three and nine months ended September 30, 2018 compared with September 30, 2017. Interest expense for the three months ended September 30, 2018 decreased slightly by \$0.2 million, or 9.2%, from the same period in 2017. For the three months ended September 30, 2018, our average debt balance and interest rate was \$173 million and 3.16%, compared to \$212 million and 2.82% for the three months ended September 30, 2017. Interest expense for the nine months ended September 30, 2018 increased by \$0.2 million, or 4.5%, from the same period in 2017. Our average debt balance and interest rate was \$192.4 million and 3.07% for the nine months ended September 30, 2018, compared to \$208.6 million and 2.67% for the nine months ended September 30, 2017. Our debt is further discussed in Note 7, Debt and Financing Arrangements, to the accompanying consolidated financial statements.

Gain on Sale of Operations, Net

Three and nine months ended September 30, 2018 compared with September 30, 2017. We sold a book of business under the Benefits and Insurance Services practice group during the nine months ended September 30, 2018 for a net gain of \$0.7 million.

Other Income, Net

Three and nine months ended September 30, 2018 compared with September 30, 2017. Other income, net includes a net gain of \$3.4 million and \$3 million for the three months ended September 30, 2018 and 2017, respectively, associated with the value of investments held in a rabbi trust related to the non-qualified deferred compensation plan. Adjustments to the fair value of our contingent purchase price liability related to prior acquisitions contributed expense of \$0.2 million during the three months ended September 30, 2018 compared to expense of \$0.5 million for the same period in 2017.

Other income, net includes a net gain of \$5.2 million and \$8.4 million for the nine months ended September 30, 2018 and 2017, respectively, associated with the non-qualified deferred compensation plan. Adjustments to the fair value of our contingent purchase price liability related to prior acquisitions contributed expense of \$3.2 million for the nine months ended September 30, 2018. This was mostly attributable to the required mark-to-market accounting of anticipated future share issuances for the contingent portion of consideration for completed acquisitions. For the same period in 2017, adjustments to the fair value of our contingent purchase price liability related to prior acquisitions contributed income of \$0.2 million. Also included in other income net, for the nine months ended September 30, 2018 is \$0.6 million in proceeds from business interruption insurance related to Hurricane Irma.

Income Tax Expense

Three Months Ended September 30,

\$ %

	2018	2017	Change	Change
	(In thousands, except percentages)			
Income tax expense	\$3,297	\$6,172	\$(2,875)	(46.6)%
Effective tax rate	19.5%	38.5%		

Nine Months Ended September 30,

\$ %

	2018	2017	Change	Change
	(In thousands, except percentages)			
Income tax expense	\$19,691	\$26,656	\$(6,965)	(26.1)%
Effective tax rate	24.0%	36.5%		

Three and nine months ended September 30, 2018 compared with September 30, 2017. The decrease in our effective tax rate is mostly attributable to (i) the Tax Act signed into law on December 22, 2017, which permanently reduced the corporate income tax rate, (ii) the excess tax benefit related to stock compensation accounting, and (iii) the reversal of estimated tax reserves due to the expiration of certain statutes of limitation.

Operating Practice Groups

We deliver our integrated services through three practice groups: Financial Services, Benefits and Insurance Services and National Practices. A description of these groups' operating results and factors affecting their businesses is provided below.

Same-unit revenue represents total revenue adjusted to reflect comparable periods of activity for acquisitions and divestitures. Divested operations represent operations that did not meet the criteria for treatment as discontinued operations.

Financial Services

	Three Months Ended September 30,			
			\$	%
	2018	2017	Change	Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$ 143,537	\$ 130,305	\$ 13,232	10.2 %
Acquired businesses	2,608	—	2,608	
Total revenue	\$ 146,145	\$ 130,305	\$ 15,840	12.2 %
Operating expenses	124,546	112,996	11,550	10.2 %
Gross margin	\$ 21,599	\$ 17,309	\$ 4,290	24.8 %
Gross margin percent	14.8 %	13.3 %		

	Nine Months Ended September 30,			
			\$	%
	2018	2017	Change	Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$ 457,992	\$ 421,529	\$ 36,463	8.7 %
Acquired businesses	20,493	—	20,493	
Total revenue	\$ 478,485	\$ 421,529	\$ 56,956	13.5 %
Operating expenses	386,649	348,236	38,413	11.0 %
Gross margin	\$ 91,836	\$ 73,293	\$ 18,543	25.3 %
Gross margin percent	19.2 %	17.4 %		

Three months ended September 30, 2018 compared to September 30, 2017

Revenue

The Financial Services practice group revenue during the three months ended September 30, 2018 grew by 12.2% to \$146.1 million from \$130.3 million in the three months ended September 30, 2017, primarily reflecting same-unit growth of \$13.2 million, or 10.2%, driven by those units that provide traditional accounting and tax related services, which increased by \$8.3 million, or 12%, as well as those units that provide national services, which increased by \$4.5 million, or 8.4%. Traditional accounting and tax-related services growth was attributable to favorable pricing and an increase in billable hours. National services benefited from both project work and growth in the governmental health care compliance business, as well as growth in the advisory business. The acquisitions of Laurus Transaction Advisors, LLC (“Laurus”), effective February 1, 2018 and McKay & Carnahan, Inc. (“McKay”), effective December 1, 2017, added approximately \$2.6 million of incremental revenue.

We provide a range of services to affiliated CPA firms under joint referral and administrative service agreements (“ASAs”). Fees earned under the ASAs are recorded as revenue in the accompanying Consolidated Statements of Comprehensive Income and were approximately \$33.2 million and \$34.7 million for the three months ended September 30, 2018 and 2017, respectively.

Operating Expenses

Operating expenses increased by \$11.6 million, or 10.2%, during the three months ended September 30, 2018, but decreased to 85.2% of revenue from 86.7% of revenue for the prior year, primarily due to leveraging personnel costs and other operating expenses with the increase in revenue. Personnel costs increased by \$11.2 million, or 12.4%, with acquisitions contributing approximately \$1.1 million to the increase in personnel costs.

Nine months ended September 30, 2018 compared to September 30, 2017

Revenue

Revenue for the nine months ended September 30, 2018 grew by 13.5% to \$478.5 million from \$421.5 million in 2017. Same-unit growth of \$36.5 million, or 8.7%, was driven by those units that provide traditional accounting and tax related services, which increased by \$17.6 million, or 7.4%, as well as national services, which increased by \$17.2 million, or 11.4%, due to the same factors as discussed above in the quarterly section. The acquisitions listed above in the quarterly section as well as the acquisition of CMF Associates, LLC (“CMF”), effective June 1, 2017, collectively provided incremental revenue of approximately \$20.5 million.

Fees earned under the ASAs, as described above, were approximately \$124.1 million and \$125.5 million for the nine months ended September 30, 2018 and 2017, respectively.

Operating Expenses

Operating expenses increased by \$38.4 million, or 11%, for the nine months ended September 30, 2018, but decreased to 80.8% of revenue, from 82.6% of revenue for the prior year due to the same factors as discussed above in the quarterly section. Personnel costs increased by \$33.1 million, or 11.7%, with acquisitions contributing approximately \$11.7 million to the increase in personnel costs. Travel costs attributable to the growth in our advisory business also contributed to the increase in operating expenses. Travel-related costs increased \$2.6 million, or 20.4%.

Benefits and Insurance Services

	Three Months Ended September 30,			
			\$	%
	2018	2017	Change	Change
	(In thousands, except percentages)			
Revenue				
Same-unit	\$69,107	\$69,663	\$ (556)	(0.8)%
Acquired businesses	962	—	962	
Total revenue	\$70,069	\$69,663	\$ 406	0.6 %

Edgar Filing: CBIZ, Inc. - Form 10-Q

Operating expenses	59,399	59,155	244	0.4	%
Gross margin	\$10,670	\$10,508	\$162	1.5	%
Gross margin percent	15.2	%	15.1	%	

32

	Nine Months Ended September 30,			
	2018	2017	Change	Change
			\$	%
	(In thousands, except percentages)			
Revenue				
Same-unit	\$217,242	\$215,386	\$1,856	0.9 %
Acquired businesses	2,910	—	2,910	
Total revenue	\$220,152	\$215,386	\$4,766	2.2 %
Operating expenses	181,697	179,174	2,523	1.4 %
Gross margin	\$38,455	\$36,212	\$2,243	6.2 %
Gross margin percent	17.5 %	16.8 %		

Three months ended September 30, 2018 compared to September 30, 2017

Revenue

The Benefits and Insurance Services practice group revenue during the three months ended September 30, 2018 increased by \$0.4 million, or 0.6%, to \$70.1 million compared to \$69.7 million for the same period in 2017. The increase was driven by \$1 million of incremental revenue from the acquisition of InR Advisory Services, LLC (“InR”), effective April 1, 2018, partially offset by a decrease in same-unit revenue of approximately \$0.6 million in the third quarter of 2018 mostly attributable to our employee benefits group.

Operating Expenses

Operating expenses increased slightly by \$0.2 million, or 0.4%, during the three months ended September 30, 2018, but decreased slightly to 84.8% of revenue from 84.9% of revenue for the same period in 2017. Personnel costs increased by \$0.5 million, or 1.2%, with acquisitions contributing approximately \$0.4 million to the increase in personnel costs.

Nine months ended September 30, 2018 compared to September 30, 2017

Revenue

Revenue for the nine months ended September 30, 2018 increased by \$4.8 million, or 2.2%, to \$220.2 million compared to \$215.4 million for the same period in 2017. The increase was primarily driven by \$2.9 million of incremental revenue from the acquisition listed above in the quarterly section as well as Slaton Insurance (“Slaton”), effective June 1, 2017, and Pacific Coastal Pension and Insurance Services (“Pacific Coastal”), effective February 1, 2017. Same-unit growth of \$1.9 million, or 0.9%, was driven by our core benefits and insurance services, notably in our property and casualty group, which recognized revenue of \$1.6 million in the nine months ended September 30, 2018 due to the adoption of Topic 606. Revenue was not restated for the same period in 2017, as permitted under Topic 606. Refer to Note 2, New Accounting Pronouncements, for further details on the impact of Topic 606.

Operating Expenses

Operating expenses increased by \$2.5 million, or 1.4%, for the nine months ended September 30, 2018, but decreased to 82.5% of revenue, from 83.2% of revenue for the prior year due to leveraging personnel costs and other operating expenses with the increase in revenue. Personnel costs increased by \$2.5 million, or 1.9%, with acquisitions contributing approximately \$1.5 million to the increase in personnel costs.

National Practices

	Three Months Ended September 30,			
	\$		%	
	2018	2017	Change	Change
	(In thousands, except percentages)			
Same-unit revenue	\$8,035	\$7,755	\$ 280	3.6 %
Operating expenses	7,514	7,109	405	5.7 %
Gross margin	\$521	\$646	\$ (125)	(19.3)%
Gross margin percent	6.5 %	8.3 %		

	Nine Months Ended September 30,			
			\$	%
	2018	2017	Change	Change
	(In thousands, except percentages)			
Same-unit revenue	\$24,343	\$23,283	\$ 1,060	4.6 %
Operating expenses	22,356	21,351	1,005	4.7 %
Gross margin	\$ 1,987	\$ 1,932	\$ 55	2.8 %
Gross margin percent	8.2 %	8.3 %		

Three and nine months ended September 30, 2018 compared to September 30, 2017

Revenue and Operating Expenses

The National Practices group is primarily driven by a cost-plus contract with a single client, which has existed since 1999. Revenues from this single client accounted for approximately 75% of the National Practice group's revenue. For the three and nine months ended September 30, 2018, revenue increased by \$0.3 million, or 3.6%, and \$1.1 million, or 4.6%, respectively, while operating expenses increased \$0.4 million, or 5.7%, and \$1 million, or 4.7%, driven by an increase in salaries and benefits.

LIQUIDITY

Our principal sources of liquidity are cash generated from operating activities and financing activities. Our cash flows from operating activities are driven primarily by our operating results and changes in our working capital requirements while our cash flows from financing activities are dependent upon our ability to access credit or other capital. We typically maintain low cash levels and apply any available cash to pay down the outstanding debt balance.

We historically experience a use of cash to fund working capital requirements during the first quarter of each fiscal year, primarily due to the seasonal accounting and tax services period under the Financial Services practice group. Upon completion of the seasonal accounting and tax services period, cash provided by operations during the remaining three quarters of the fiscal year substantially exceeds the use of cash in the first quarter of the fiscal year.

Accounts receivable balances increase in response to the increase in first quarter revenue generated by the Financial Services practice group. A significant amount of this revenue is billed and collected in subsequent quarters. Days sales outstanding ("DSO") from continuing operations represent accounts receivable and unbilled revenue (net of realization adjustments) at the end of the period, divided by trailing twelve months daily revenue. We provide DSO data because such data is commonly used as a performance measure by analysts and investors and as a measure of our ability to collect on receivables in a timely manner. DSO was 81 days and 72 days at September 30, 2018 and December 31, 2017, respectively. DSO at September 30, 2017 was 84 days.

The following table presents selected cash flow information (in thousands). For additional details, refer to the accompanying Consolidated Statements of Cash Flows.

	Nine Months Ended September 30,	
	2018	2017
Net cash provided by operating activities	\$63,272	\$37,851
Net cash provided by investing activities	42,201	43,463
Net cash used in financing activities	(102,838)	(79,306)
Net increase in cash, cash equivalents and restricted cash	\$2,635	\$2,008

Operating Activities

The \$25.4 million net increase in cash provided by operations was mainly due to an increase in net income of \$17 million and a \$5.7 million increase in noncash item adjustments, notably an increase in the adjustment to the contingent earnout liability of \$3.5 million mostly attributable to a mark-to-market adjustment on contingent shares held for earnouts, as well as a \$3.1 million adjustment related to deferred income taxes.

Investing Activities

Cash provided by investing activities for the nine months ended September 30, 2018 consisted primarily of net activity related to funds held for clients of \$76.3 million, partially offset by \$24.6 million of cash used related to the acquisitions of Laurus and InR, as well as \$9.8 million of cash used for capital expenditures. Cash provided by investing activities for the nine months ended September 30, 2017 consisted primarily of \$79.7 million of net activity related to funds held for clients, partially offset by \$26.6 million of cash used related to the acquisitions of CMF, Slaton and The Savitz Organization, as well as \$8.9 million of cash used for capital expenditures.

The balances in funds held for clients and client fund obligations can fluctuate with the timing of cash receipts and the related cash payments. The nature of these accounts is further described in Note 1, Organization and Summary of Significant Accounting Policies, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Financing Activities

Cash used in financing activities for the nine months ended September 30, 2018 primarily consisted of net decrease in client fund obligations of \$76.3 million, as well as \$11.7 million in contingent consideration payments related to prior acquisitions and \$11.4 million in net payments on our credit facility. Cash used in financing activities for the nine months ended September 30, 2017 consisted primarily of a net decrease of \$79.7 million in client fund obligations and the repurchase of our common stock at a cost of approximately \$10.3 million.

Capital Resources

Credit Facility

At September 30, 2018, we had \$167.1 million outstanding under the 2018 credit facility as well as letters of credit totaling \$0.9 million. Available funds under the 2018 credit facility, based on the terms of the commitment, were approximately \$226 million at September 30, 2018. For further discussion regarding our debt, refer to Note 7, Debt and Financing Arrangements, to the accompanying consolidated financial statements.

Line Of Credit

On August 16, 2018, we entered into an unsecured \$20 million line of credit with a bank participating in our 2018 credit facility. This line of credit will be used to support our short-term funding requirements of payroll client fund obligations due to the investment of client funds, rather than liquidating client funds that have already been invested in available-for-sale securities. Refer to Note 9, Financial Instruments, to the accompanying consolidated financial statements for further discussion regarding these investments. The line of credit, which terminates August 16, 2019, did not have a balance outstanding at September 30, 2018. Borrowings under the line of credit bear interest at the prime rate. Refer to Note 7, Debt and Financing Arrangements, to the accompanying consolidated financial statements for further discussion regarding the line of credit.

Debt Covenant Compliance

Under the 2018 credit facility, we are required to meet certain financial covenants with respect to (i) total leverage ratio and (ii) a minimum fixed charge coverage ratio. We are in compliance with our covenants as of September 30, 2018. Our ability to service our debt and to fund future strategic initiatives will depend upon our ability to generate cash in the future.

Use of Capital

Our first priority for the use of capital is to make strategic acquisitions. We have the financing flexibility and the capacity to carry out an active acquisition program and to take an opportunistic approach towards using funds to repurchase shares. We believe that repurchasing shares of our common stock under the Share Repurchase Program is a prudent use of our financial resources, and that investing in our shares is an attractive use of capital and an efficient means to provide value to our shareholders.

•We completed two acquisitions during the nine months ended September 30, 2018. For further details on acquisitions, refer to Note 14, Acquisitions, to the accompanying condensed consolidated financial statements.

35

- During the nine months ended September 30, 2018, we repurchased approximately 0.3 million shares of our common stock at a total cost of approximately \$6.2 million, compared to 0.6 million shares of our common stock at a total cost of approximately \$8.8 million for the same period in 2017. For the nine months ended September 30, 2018 and 2017, we withheld approximately 0.1 million and 0.1 million shares with an aggregate value of approximately \$1.9 million and \$1.4 million from employees who exercised stock options or who received vested restricted stock awards. Such shares were withheld, if applicable, to cover the required tax withholdings.

Off-Balance Sheet Arrangements

We maintain administrative service agreements with independent CPA firms (as described more fully under “Business – Financial Services” and in Note 1, Basis of Presentation and Significant Accounting Policies, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017), which qualify as variable interest entities. The accompanying consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact is not material to the financial condition, results of operations, or cash flows of CBIZ.

We provide letters of credit to landlords (lessors) of our leased premises in lieu of cash security deposits, which totaled \$0.9 million and \$2.3 million at September 30, 2018 and December 31, 2017. In addition, we provide license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding at September 30, 2018 and December 31, 2017 totaled \$2.9 million and \$2.5 million, respectively.

We have various agreements under 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 us under such indemnification clauses is generally conditioned upon the other party making a claim. Such claims are typically subject to challenge by us and to dispute resolution procedures specified in the particular contract. Further, our obligations under these agreements may be limited in terms of time and/or amount and, in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, we have not made any payments under these agreements that have been material individually or in the aggregate. As of September 30, 2018, we are not aware of any material obligations arising under indemnification agreements that would require payment.

Critical Accounting Policies

The SEC defines critical accounting policies as those that are most important to the portrayal of a company’s financial condition and results and that require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Effective January 1, 2018, we adopted Topic 606. As a result, we have changed our accounting policy for revenue recognition as described in Note 2, New Accounting Pronouncements, and Note 3, Revenue.

New Accounting Pronouncements

Refer to Note 2, New Accounting Pronouncements, to the accompanying consolidated financial statements for a discussion of recently issued accounting pronouncements.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact included in this Quarterly Report, including without limitation, "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our financial position, business strategy and plans and objectives for future performance are forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are commonly identified by the use of such terms and phrases as "intends", "believes", "estimates", "expects", "projects", "anticipates", "foreseeable future", "seeks", and words or phrases of similar import in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated services, sales efforts, expenses, and financial results. From time to time, we also may provide oral or written forward-looking statements in other materials we

release to the public. Any or all of our forward-looking statements in this Quarterly Report on Form 10-Q and in any other public statements that we make, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Such forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Should one or more of these risks or assumptions materialize, or should the underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected.

Consequently, no forward-looking statement can be guaranteed. A more detailed description of risk factors may be found in our Annual Report on Form 10-K for the year ended December 31, 2017. Except as required by the federal securities laws, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our filings with the SEC, such as quarterly, periodic and annual reports.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our floating rate debt under our 2018 credit facility exposes us to interest rate risk. Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. A change in the Federal Funds Rate, or the reference rate set by Bank of America, N.A., would affect the rate at which we could borrow funds under the 2018 credit facility. Our balance outstanding under our 2018 credit facility at September 30, 2018 was \$167.1 million, of which \$82.1 million is subject to rate risk. If market rates were to increase or decrease 100 basis points from the levels at September 30, 2018, interest expense would increase or decrease approximately \$0.8 million annually.

We do not engage in trading market risk sensitive instruments. We periodically use interest rate swaps to manage interest rate risk exposure. The interest rate swaps effectively modify our exposure to interest rate risk, primarily through converting portions of its floating rate debt under the 2018 credit facility to a fixed rate basis. These agreements involve the receipt or payment of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements without an exchange of the underlying principal amounts.

At September 30, 2018, we had five interest rate swaps with notional values of \$15 million, \$25 million, \$10 million, \$20 million and \$15 million with maturities of 5 months, 2 years, 3 years, 4 years and 5 years, respectively. Refer to Note 9, Financial Instruments, for further details on our interest rate swaps. Management will continue to evaluate the potential use of interest rate swaps as we deem appropriate under certain operating and market conditions. We do not enter into derivative instruments for trading or speculative purposes.

In connection with our payroll business, funds held for clients are segregated and invested in short-term investments, such as corporate and municipal bonds. In accordance with our investment policy, all investments carry an investment grade rating at the time of the initial investment. At each respective balance sheet date, these investments are adjusted to fair value with fair value adjustments being recorded to other comprehensive income or loss and reflected in the accompanying Consolidated Statements of Comprehensive Income for the respective period. If an adjustment is deemed to be other-than-temporarily impaired due to credit loss, then the adjustment is recorded to "Other income, net" in the accompanying Consolidated Statements of Comprehensive Income. Refer to Note 9, Financial Instruments, and Note 10, Fair Value Measurements, to the accompanying consolidated financial statements for further discussion regarding these investments and the related fair value assessments.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Limitations on the Effectiveness of Controls

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

Conclusions

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

(b) Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standard related to revenue recognition on our financial statements to facilitate the adoption on January 1, 2018. There were no significant changes to our internal control over financial reporting due to the adoption of the new revenue recognition standard. Refer to Note 2, New Accounting Pronouncements, and Note 3, Revenue, for further information.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding certain legal proceedings in which we are involved is incorporated by reference from Note 8, Commitments and Contingencies, to the accompanying consolidated financial statements.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC. These risks could materially and adversely affect the business, financial condition and results of operations of CBIZ.

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

(a) Recent sales of unregistered securities

During the three months ended September 30, 2018, we did not issue any shares of our common stock as payment for contingent consideration for previous acquisitions. During the nine months ended September 30, 2018, we issued approximately 0.1 million shares of our common stock as payment for contingent consideration for previous acquisitions.

The above referenced shares were issued in transactions not involving a public offering in reliance on the exemption from registration afforded by Section 4(a)(2) of the Securities Act. The persons to whom the shares were issued had access to full information about CBIZ and represented that they acquired the shares for their own account and not for the purpose of distribution. The certificates for the shares contain a restrictive legend advising that the shares may not be offered for sale, sold, or otherwise transferred without having first been registered under the Securities Act or pursuant to an exemption from the Securities Act.

(c) Issuer purchases of equity securities

Our first priority for the use of capital is to make strategic acquisitions. We have the financing flexibility and the capacity to carry out an active acquisition program and to take an opportunistic approach towards using funds to repurchase shares. We have a Share Repurchase Program, authorized by our Board of Directors, which allows us to purchase up to 5 million shares of our common stock (i) in the open market, (ii) in privately negotiated transactions, and (iii) under Rule 10b5-1 trading plans. Privately negotiated transactions may include purchases from our employees, Officers and Directors, in accordance with SEC rules. Rule 10b5-1 trading plans allow for repurchases during periods when we would not be normally active in the trading market due to regulatory restrictions. The Share Repurchase Program does not obligate us to acquire any specific number of shares and may be suspended at any time.

On February 8, 2018, our Board of Directors authorized the continuation of the Share Repurchase Program, which has been renewed annually for the past fourteen years. It is effective beginning April 1, 2018, to which the amount of shares to be purchased will be reset to 5 million, and expires one year from the effective date.

Shares repurchased during the three months ended September 30, 2018 (reported on a trade-date basis) are summarized in the table below (in thousands, except per share data). Average price paid per share includes fees and commissions. During the three months ended September 30, 2018, we repurchased 159,600 shares of our common stock at a total cost of approximately \$3.7 million, which does not include the purchase of shares withheld for tax purposes under the 2014 Plan. During the three months ended September 30, 2018, less than one thousand shares were purchased from stock plan recipients in lieu of cash to satisfy certain tax obligations under the 2014 Plan.

	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased as Part of Publicly Announced Plan	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Number of Shares That May Yet Be Purchased Under the Plan
Third Quarter Purchases				
July 1 – July 31, 2018	53	\$ 22.88	53	4,759
August 1 – August 31, 2018	60	\$ 22.88	60	4,699

Edgar Filing: CBIZ, Inc. - Form 10-Q

September 1 – September 30, 2018	47	\$ 23.86	47	4,652
Third quarter purchases	160	\$ 23.17	160	

According to the terms of our 2018 credit facility, we are not permitted to declare or make any dividend payments, other than dividend payments made by one of our wholly owned subsidiaries to the parent company. Refer to Note 7, Debt and Financing Arrangements, to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2017 for a description of working capital restrictions and limitations on the payment of dividends.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

- 10.1 Loan Agreement dated as of August 16, 2018 by and among CBIZ Benefits and Insurance, Inc. and The Huntington National Bank.
*
- 31.1 Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
*
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**
- 101 * The following materials from CBIZ, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, (ii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017, (iii) Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2018 and the year ended December 31, 2017; (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, and (v) Notes to the Consolidated Financial Statements.

*Indicates documents filed herewith.

**Indicates document furnished herewith.

SIGNATURE

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

CBIZ, Inc.
(Registrant)

Date: November 1, 2018 By: /s/ Ware H. Grove
Ware H. Grove
Chief Financial Officer
Duly Authorized Officer and Principal Financial Officer