

CBIZ, Inc.
Form 10-K
March 16, 2007

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

FORM 10-K

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

For the fiscal year ended December 31, 2006 or

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

For the transition period from to

Commission file number 0-25890

CBIZ, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

22-2769024

(State or Other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer
Identification No.)

**6050 Oak Tree Boulevard, South,
Suite 500,
Cleveland, Ohio**

44131

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (216) 447-9000

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01

New York Stock Exchange

(Title of class)

(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$513.9 million as of June 30, 2006.

The number of outstanding shares of the registrant's common stock is 66,669,709 as of February 28, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Part III Portions of the Registrant's Definitive Proxy Statement relative to the 2007 Annual Meeting of Stockholders to be filed with the Securities and Exchanges Commission no later than 120 days after the end of the Registrant's fiscal year.

CBIZ, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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The following text is qualified in its entirety by reference to the more detailed information and consolidated financial statements (including the notes thereto) appearing elsewhere in this Annual Report on Form 10-K. Unless the context otherwise requires, references in this Annual Report to we, our, us, CBIZ, or the Company shall mean CBIZ, Inc., a Delaware corporation, and its wholly-owned subsidiaries. All references to years, unless otherwise noted, refer to our fiscal year which ends on December 31.

Available Information

CBIZ's principal executive office is located at 6050 Oak Tree Boulevard, South, Suite 500, Cleveland, Ohio 44131, and our telephone number is (216) 447-9000. Our website is located at <http://www.cbiz.com>. CBIZ makes available, free of charge on its website, through the investor information page, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after CBIZ files (or furnishes) such reports with the U.S. Securities and Exchange Commission (SEC). The public may read and copy materials we file (or furnish) with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, and may obtain information on the operations of the Public Reference Room by calling the SEC at 1-800-732-0330. In addition, the SEC maintains an internet site that contains reports, proxy and information statements and other information about us at <http://www.sec.gov>. Our corporate code of conduct and ethics and the charters of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee of the Board of Directors are available on the investor information page of CBIZ's website, referenced above, and in print to any shareholder who requests them.

PART I

Item 1 Business.

Overview and History

CBIZ provides professional business services that help clients manage their finances, employees and technology. These services are provided to businesses of various sizes, as well as individuals, governmental entities and not-for-profit enterprises throughout the United States and Toronto, Canada. CBIZ delivers its integrated services through the following four practice groups:

Financial Services

Employee Services

Medical Management Professionals

National Practices

CBIZ believes that our diverse and integrated services offerings results in advantages for both the client and for CBIZ. By providing custom solutions that help our clients manage their finances, employees and technology, CBIZ enables our clients to focus their resources on their own core business and operational competencies. Additionally, working with one provider for several solutions enables our clients to utilize their resources more efficiently by eliminating the need to coordinate with multiple service providers. For example, the employee data used to process payroll can also be used by a CBIZ health and welfare insurance agent and benefits consultant to provide an appropriate benefits package to a client's employee base. In addition, the relationship our accounting and tax advisors have with their clients allows us to identify financial planning, wealth management, and other business opportunities. The ability to combine several services and offer them through one trusted provider distinguishes CBIZ from other service

providers.

Effective August 1, 2005, after approval by our Board of Directors and shareholders, CBIZ changed its corporate name from Century Business Services, Inc. to CBIZ, Inc. , and effective August 4, 2006, CBIZ transferred the listing of its common stock to the New York Stock Exchanges (NYSE) under the new symbol CBZ . Prior to August 4, 2006, CBIZ s common stock was traded on the NASDAQ National Market under the symbol CBIZ . CBIZ has been operating as a professional services business since 1997, and built its professional services business through acquiring accounting, benefits, technology, valuation and other service firms throughout the United States.

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Business Strategy

CBIZ's business strategy is to grow in the business services industry through: internal organic growth, cross-serving our existing clients, and targeted acquisitions. Each of these components are critical to our long-term growth strategy, and we expect each component to contribute equally to our long-term revenue growth.

CBIZ has capitalized on organic growth opportunities, and believes it can continue to capitalize on opportunities, including:

Market opportunity from accounting industry consolidation;

Expansion of the medical billing business;

Internal audit outsourcing;

A unique web-based employee benefits platform offering;

Growth of human capital advisory, retirement planning and wealth management services;

Valuation services; and

A generally underserved market.

Cross-serving provides CBIZ with the opportunity to deliver multiple services to existing clients, and thus contributes to revenue growth through the expansion of business to such clients. Cross-serving opportunities are identified by our employees as they provide services to their existing clients. Being a trusted advisor to our clients provides CBIZ with the opportunity to identify our clients' needs, while the diverse and integrated services offered by CBIZ allows us to provide solutions to satisfy our clients' needs.

Our acquisition strategy is to selectively acquire businesses that expand our market position and strengthen our existing service offerings. Strategic businesses that CBIZ seeks to acquire generally have a strong potential for cross-serving to CBIZ's clients, can integrate quickly with existing CBIZ operations, have strong and energetic leadership, and are accretive to earnings.

CBIZ continually strives to create value for our shareholders, and believes that repurchasing shares of its common stock is a use of cash that provides such value. Accordingly, CBIZ continually evaluates share repurchase opportunities, and may repurchase shares of its common stock when capital resources are available, and such repurchases are accretive to shareholders.

Business Services

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

Financial Services: The Financial Services group was formerly referred to as Accounting, Tax and Advisory Services. In addition, CBIZ Valuation Group was transferred from National Practices into Financial Services during the first quarter of 2006.

Employee Services: The Employee Services practice group was formerly referred to as Benefits and Insurance Services . In addition, CBIZ Payroll Services was transferred from National Practices into Employee Services during the first quarter of 2006.

Medical Management Professionals: Medical Management Professionals (CBIZ MMP) is an individual practice group. Historically, CBIZ MMP was reported and managed within the National Practices group.

National Practices: The National Practices group is primarily comprised of business units offering technology services to clients, as well as other units whose individual size do not meet quantitative thresholds as provided by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information . During the first quarter of 2006, CBIZ Valuation Group and CBIZ Payroll Services were transferred out of National Practices into Financial Services and Employee Services, respectively.

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Prior period financial statements have been reclassified to reflect these changes in segment reporting. Although financial results for the individual practice groups have changed, there was no impact to CBIZ's consolidated financial statements as a result of these reclassifications.

Services

CBIZ delivers its integrated services through four operating practice groups. A general description of services provided by practice group, is provided in the table below.

Financial Services

Accounting

Tax

Financial Advisory

Litigation Support

Valuation

Sarbanes-Oxley 404 Consulting

Internal Audit

Fraud Detection

Real Estate Advisory

Employee Services

Group Health

Property & Casualty

COBRA / Flex

Retirement Planning

Wealth Management

Life Insurance

Human Capital Management

Payroll Services

Specialty Life Insurance

Actuarial Services

National Practices

Managed Networking and Hardware Services

IT Consulting

Project Management

Software Solutions

Mergers & Acquisitions

Health Care Consulting

Government Relations

CBIZ MMP

Coding and Billing

Accounts Receivable Management

Full Practice Management Services

Practice Groups

During the year ended December 31, 2006, CBIZ's operating practice groups contributed to consolidated revenue as follows: Financial Services, 46.2%; Employee Services, 25.9%; CBIZ MMP, 19.5%; and National Practices, 8.4%. Revenue by practice group for the years ended December 31, 2006, 2005 and 2004, is provided in the table below (in millions):

	Year Ended December 31,		
	2006	2005	2004
Financial Services	\$ 277.5	\$ 262.1	\$ 226.2
Employee Services	155.7	141.8	133.5
CBIZ MMP	117.4	98.2	87.7
National Practices	50.5	48.6	44.8
Total CBIZ	\$ 601.1	\$ 550.7	\$ 492.2

Certain external relationships and regulatory factors currently impacting CBIZ's practice groups are provided in the paragraphs below. See Note 20 of the accompanying consolidated financial statements for further discussion of CBIZ's practice groups.

Financial Services

The Financial Services practice is divided into three geographic regions, representing the East, Midwest, and West regions of the United States, and a national service division consisting of those units that provide their services nationwide. The East, Midwest and West regions are each headed by a designated regional director, each of whom report to the Senior Vice President, Financial Services. Those units within the national service division report either directly to the Senior Vice President, Financial Services, or to a designated regional director.

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

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by such CPA firms. These firms are owned by licensed CPAs, a vast majority of whom are also employed by CBIZ subsidiaries.

Under these ASAs, CBIZ provides a range of services to the CPA firms, including (but not limited to): administrative functions such as office management, bookkeeping, and accounting; preparing marketing and promotion materials; providing office space, computer equipment, and systems support; and leasing administrative and professional staff. Services are performed in exchange for a fee. Fees earned by CBIZ under the ASAs are recorded as revenue in the accompanying consolidated statements of operations and amounted to approximately \$71.4 million, \$69.0 million, and \$46.3 million for the years ended December 31, 2006, 2005 and 2004, respectively, a majority of which is related to services rendered to privately-held clients. In the event that accounts receivable and unbilled work in process become uncollectible by the CPA firms, the service fee due to CBIZ is reduced on a pro-rata basis. The ASAs typically have terms ranging up to ten years, and are renewable upon agreement by both parties. In January 2006, the ASA between CBIZ and Mayer Hoffman McCann P.C., the largest firm associated with CBIZ, was extended for an additional eighteen years, with certain rights of extension and termination.

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

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

At December 31, 2006, CBIZ maintained administrative service agreements with four CPA firms. Most of the members and/or shareholders of the CPA firms are also CBIZ employees, and CBIZ renders services to the CPA firms as an independent contractor. The number of firms with which CBIZ maintains administrative service agreements decreased when a majority of the partners of the CPA firms with whom we previously maintained ASAs joined Mayer Hoffman McCann, P.C. (MHM P.C.), an independent national CPA firm headquartered in Kansas City, Kansas. MHM P.C. has 209 shareholders, a vast majority of whom are also employees of CBIZ. MHM maintains a seven member Board of Directors. There are no board members of MHM P.C. who hold senior officer positions at CBIZ. CBIZ's association with MHM P.C. offers clients access to the multi-state resources and expertise of a national CPA firm. The advantage to CBIZ of these consolidations is a reduction in the number of different firms with which we

maintain ASAs.

Although the ASAs do not constitute control, CBIZ is one of the beneficiaries of the agreements and may bear certain economic risks. As such, the CPA firms with which CBIZ maintains administrative service agreements

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qualify as variable interest entities under FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), as amended. See further discussion in Note 1 of the consolidated financial statements included herewith.

Employee Services

CBIZ's Employee Services group operates under one Senior Vice President who oversees the practice group, along with a senior management team which supports the practice group leader along: functional; product; and unit management lines. The business units that comprise CBIZ's Employee Services group are organized between Retail and National Services. The Retail offices generally provide services locally, within their geographic area. The National group is comprised of several specialty operations that provide unique services on a national scale.

CBIZ's Employee Services group maintains relationships with many different insurance carriers. Some of these carriers have compensation arrangements with CBIZ whereby some portion of payments due may be contingent upon meeting certain performance goals, or upon CBIZ providing client services that would otherwise be provided by the carriers. These compensation arrangements are provided to CBIZ as a result of our performance and expertise, and may result in enhancing CBIZ's ability to access certain insurance markets and services on behalf of CBIZ clients. The aggregate of these payments received during the years ended December 31, 2006, 2005 and 2004 were less than 2% of consolidated CBIZ revenue for the respective periods.

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

Medical Management Professionals

CBIZ Medical Management Professionals (CBIZ MMP) provides billing and collection as well as full-practice management services for hospital-based physicians practicing anesthesiology, pathology, radiology and emergency medicine. CBIZ MMP operates under one Senior Vice President who reports to CBIZ's Chief Executive Officer. The Senior Vice President is supported by an executive management team which oversees CBIZ MMP's operating units along functional and product lines. CBIZ MMP's operating units are organized into three geographic regions representing the East, Central and West regions of the United States. Each region is managed by a two person management team, focused on finance and operations.

Changes in some managed care plans and federal Medicare and Medicaid physician and practice expense reimbursement rules and rates are expected to adversely affect revenue in our existing physician and medical billing and collections business. The Deficit Reduction Act of 2005 also provides for a reduction and cap beginning in 2007 of reimbursement for certain fees and charges related to imaging services and facilities of offices, imaging centers and independent diagnostic testing facilities. In addition, certain managed care payors may impose precertification and other management programs which could limit or control the use of, and reimbursement for, imaging and diagnostic services. Certain managed care payors may institute Pay for Performance and quality initiative programs that could limit or control physician, office and facility, and practice services and procedures, as well as reimbursement costs,

and replace volume-based payment methods. Since our physician and medical billing and collections business is typically paid a portion of the revenue collected on behalf of our clients, any reduction in the volume of services or reimbursement rates for such services or expenses for which our clients are eligible to be paid may adversely affect our ability to generate revenue and maintain margins. CBIZ will make its best efforts to take appropriate actions to maintain margins in this business, however there is no assurance that we

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will be able to maintain margins at historic levels. These changes in reimbursement rates may provide CBIZ with the opportunity to increase the number of clients to which medical coding and billing services are provided, as they may cause physicians who do not currently utilize third party providers to consider the use of CBIZ's medical coding and billing services.

National Practices

The National Practices group offers technology and other services, including health care consulting, mergers and acquisitions, and government relations services. The majority of the units within the National Practices group report to CBIZ's President and Chief Operating Officer, with one unit reporting to CBIZ's Chief Executive Officer.

Sales and Marketing

CBIZ's branding strategy has historically focused on providing CBIZ with a consistent image and value proposition within each of its primary geographic and industry markets. Beginning in 2005, CBIZ capitalized on those successful efforts by refining its message to reinforce the CBIZ Client Centric model—a more intuitive way of taking the wide array of CBIZ service offerings to market, based on the fundamental needs of businesses to manage their financial, employee and technology challenges. These efforts included an evolution of the CBIZ advertising strategy, focusing on our three primary service offerings: employee management; financial management; and technology, as well as the development of a revised web presence, new collateral materials, and the introduction of several new direct marketing and e-marketing vehicles. The Client Centric model was also used as a basis to begin to better understand and define each client's unique areas of need, through the use of our proprietary database, CNECT. CBIZ believes that this level of client information is strategically important for revenue generation as it enhances CBIZ's ability to identify the most appropriate cross-serving opportunities.

For 2006, CBIZ has focused on three key strategies: thought leadership; market segmentation; and sales/marketing integration.

Thought leadership: CBIZ marketing efforts have sought to capitalize on the extensive knowledge and expertise of CBIZ associates. This has been accomplished through increased media visibility, speaking engagements, and the creation of a wide variety of white papers, technical documents, newsletters, books, and other information offerings.

Market Segmentation: A significant number of targeted marketing initiatives have been undertaken in 2006, all of which focus specifically on those industries and areas where CBIZ has a particularly deep experience. These efforts include trade show participation and speaking engagements, trade publication advertising, targeted direct marketing, and industry specific micro-sites, newsletters, etc.

Sales/marketing integration: During 2006, CBIZ launched an enterprise wide sales training program called CBIZ Sales Academy. CBIZ Sales Academy was designed to integrate with the existing CBIZ branding efforts, and contribute to lead generation efforts by fostering relationships amongst CBIZ employees. In addition, significant efforts have been made to upgrade CBIZ's Customer Relationship Management (CRM) and Sales Force Automation (SFA) software, allowing improved synergy between business development efforts and marketing initiatives.

Beyond branding, a major marketing initiative was undertaken to enhance CBIZ's targeted marketing capabilities. While it is CBIZ's intent to continue to foster the entrepreneurial spirit of our offices by allowing individual business units to execute their local marketing plans, CBIZ has significantly increased our ability to provide offices with a host of highly targeted marketing tools, support, and strategies to better capitalize on market opportunities in selected

industries and practice areas. These tools include print and radio advertisements, printed material such as brochures and stationery, and CBIZ-branded merchandise for trade shows and other client-oriented events. CBIZ continues to be focused on creating business development tools and programs on a national level that can be easily customized for use at the local level.

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Customers

CBIZ provides professional business services to approximately 90,000 clients. By providing various administrative functions, CBIZ enables its clients to focus their resources on their own operational competencies. Reducing administrative functions allows clients to enhance productivity, reduce costs and improve service, quality and efficiency by focusing on their core business. Depending on a client's size and capabilities, it may choose to utilize some or many of the diverse and integrated services offered by CBIZ.

CBIZ's clients come from a large variety of industries and markets. No single client individually comprises more than 10.0% of CBIZ's consolidated revenue and our largest client, Edward Jones, contributed approximately 2.6% of our consolidated revenue in 2006. Management believes that such diversity helps insulate CBIZ from a downturn in a particular industry. Nevertheless, economic conditions among selected clients and groups of clients may have an impact on the demand for such services.

Competition

The professional business services industry is highly fragmented and competitive, with a majority of industry participants, such as accounting, employee benefits, payroll providers or professional service organizations, offering only a limited number of services. Competition is based primarily on customer relationships, range and quality of services or product offerings, customer service, timeliness, geographic proximity, and competitive rates. CBIZ competes with a number of multi-location regional or national professional services firms and a large number of relatively small independent firms in local markets. CBIZ's competitors in the professional business services industry include, but are not limited to, independent consulting services companies, independent accounting and tax firms, payroll service providers, independent insurance brokers and divisions of diversified services companies.

Acquisitions and Divestitures

CBIZ seeks to strengthen its operations and customer service capabilities by selectively acquiring businesses that expand our market position and strengthen our existing service offerings. During 2006, CBIZ acquired three businesses. The TriMed Group, which is reported with our Medical Management Professionals group, is based in Flint, Michigan and provides medical billing services and in-house computer systems primarily to hospital-based physician practices in Michigan, Ohio and Indiana. Valley Global Insurance Brokers, and Burnham Colman Kaelin and Walker Insurance Agency (BCKW) are reported with our Employee Services practice group. Valley Global Insurance Brokers is a property and casualty insurance broker located in San Jose, California and BCKW is an insurance agency offering property and casualty, commercial bonds and employee benefits with offices in St. Joseph and Kansas City, Missouri.

In an on-going effort to rationalize our business, CBIZ has divested (and may continue to divest), business units that do not contribute to our long-term objectives for growth, or that are not complementary to our target service offerings and markets. In 2006, CBIZ sold two business operations which were classified as discontinued operations. These sales consisted of an accounting and tax practice that was previously reported as part of the Financial Services practice group, and an operation offering property tax services that was previously reported as part of the National Practices group. Additionally, during the fourth quarter of 2006, CBIZ committed to the divestitures of an operation from the Employee Services group and an operation from the Financial Services group. CBIZ plans to divest of the operations through sales transactions which are expected to be completed during 2007.

Regulation

CBIZ's operations are subject to regulations by federal, state, and local governing bodies. Accordingly, our business services may be impacted by legislative changes by these bodies, particularly with respect to provisions relating to payroll, benefits administration and insurance services, pension plan administration, medical management billing and collections, and tax and accounting. CBIZ remains abreast of regulatory changes affecting our business, as these changes often affect clients' activities with respect to employment, taxation, benefits, and accounting. For instance, changes in income, estate, or property tax laws may require additional consultation with clients subject to these changes to ensure their activities comply with revised regulations.

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CBIZ itself is subject to industry regulation and changes, including changes in laws, regulations, and codes of ethics governing its accounting, insurance, valuation, medical management, registered investment advisory and broker-dealer operations, as well as in other industries, the interpretation of which may restrict CBIZ's operations.

CBIZ is subject to certain privacy and information security laws and regulations, including, but not limited to those under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), The Financial Modernization Act of 1999 (the Gramm-Leach-Bliley Act), and other provisions of federal and state law which may restrict CBIZ's operations and give rise to expenses related to compliance.

As a public company, CBIZ is subject to the provisions of the Sarbanes-Oxley Act of 2002 to reform the oversight of public company auditing, improve the quality and transparency of financial reporting by those companies and strengthen the independence of auditors.

Liability Insurance

CBIZ carries policies including those for commercial general liability, automobile liability, property, crime, professional liability, directors and officers liability, fiduciary liability, employment practices liability and workers compensation subject to prescribed state mandates. Excess liability coverage is carried over the underlying limits provided by the commercial general liability, directors and officers liability, professional liability and automobile liability policies.

Employees

At December 31, 2006, CBIZ employed approximately 5,200 employees, and CBIZ believes that it has a good relationship with its employees. A large number of our employees hold professional licenses or degrees. As a professional services company that differentiates itself from competitors through the quality and diversity of our service offerings, CBIZ believes that our employees are our most important asset. Accordingly, CBIZ strives to remain competitive as an employer while increasing the capabilities and performance of our employees.

Seasonality

A disproportionately large amount of CBIZ's revenue occurs in the first half of the year. This is due primarily to accounting and tax services provided by our Financial Services practice group, which is subject to seasonality related to heavy volume in the first four months of the year. CBIZ's Financial Services group generated approximately 42% of its revenue in the first four months of 2006. Like most professional service companies, most of CBIZ's operating costs are relatively fixed in the short term, resulting in higher operating margins in the first half of the year.

Uncertainty of Forward-Looking Statements

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Annual Report, including without limitation, Business and Management's Discussion and Analysis of Financial Condition and Results of Operations regarding CBIZ's financial position, business strategy and plans and objectives for future performance are forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are commonly identified by the use of such terms and phrases as intends, believes, estimates, expects, projects, anticipates, foreseeable future, 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 10-K, in the 2006 Annual Report 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. Many factors mentioned in Item 1A. Risk Factors will be important in determining future results. Consequently, no forward-looking statement can be

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guaranteed. Our actual future results may vary materially. We undertake no obligation to publicly update any 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 the quarterly, periodic and annual reports we file with the SEC. Also note that we provide the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses. These are factors that we think could cause our actual results to differ materially from expected and historical results. Other factors besides those described here could also adversely affect operating or financial performance. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Item 1A. Risk Factors.

The following factors may affect our actual operating and financial results and could cause results to differ materially from those in any forward-looking statements. There may be other factors, and new risk factors may emerge in the future. You should carefully consider the following information.

A reversal of or decline in the current trend of outsourcing business services may have a material adverse effect on our business, financial condition and results of operations.

Our business and growth depend in large part on the trend toward outsourcing business services. We can give you no assurance that this trend in outsourcing will continue. Current and potential customers may elect to perform such services with their own employees. A significant reversal of, or a decline in, this trend would have a material adverse effect on our business, financial condition and results of operations.

We may be more sensitive to revenue fluctuations than other companies, which could result in fluctuations in the market price of our common stock.

A substantial majority of our operating expenses such as personnel and related costs, depreciation and rent, are relatively fixed in the short term. As a result, we may not be able to quickly reduce costs in response to any decrease in revenue. For example, any decision by a significant client to delay or cancel our services may cause significant variations in operating results and could result in losses for the applicable quarters. Additionally, the general condition of the United States economy has and will continue to affect our business. Potential new clients may defer from switching service providers when they believe economic conditions are unfavorable. Any of these factors could cause our quarterly results to be lower than expectations of securities analysts and shareholders, which could result in a decline in the price of our common stock.

We have a risk that payments on accounts receivable or notes receivable may be slower than expected, or that amounts due on receivables or notes may not be fully collectible.

Professional services firms often experience higher average accounts receivable days outstanding compared to many other industries. If collections become slower, our liquidity may be adversely impacted. We monitor the aging of receivables regularly and make assessments of the ability of customers to pay amounts due. We provide for potential bad debts each month and recognize additional reserves against bad debts as we deem it appropriate. Notwithstanding these measures, our customers may face unexpected circumstances that adversely impact their ability to pay their trade receivables or note obligations to us and we may face unexpected losses as a result.

We are dependent on the services of our executive officers and other key employees, the loss of any of whom may have a material adverse effect on our business, financial condition and results of operations.

Our success depends in large part upon the abilities and continued services of our executive officers and other key employees, such as our business unit presidents. In the course of business operations, employees may resign and seek employment elsewhere. Certain principal employees, however, are bound in writing to non-compete agreements barring competitive employment, client solicitation, and solicitation of employees for a period of between two and ten years following his or her resignation. We cannot assure you that we will be able to retain the services of our key personnel. If we cannot retain the services of key personnel, there could be a material adverse effect on our business, financial condition and results of operations. While we generally have employment agreements and non-

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competition agreements with key personnel, courts are at times reluctant to enforce such non-competition agreements. In addition, many of our executive officers and other key personnel are either participants in our stock option plan or holders of a significant amount of our common stock. We believe that these interests provide additional incentives for these key employees to remain with us. In order to support our growth, we intend to continue to effectively recruit, hire, train and retain additional qualified management personnel. Our inability to attract and retain necessary personnel could have a material adverse effect on our business, financial condition and results of operations.

Restrictions imposed by independence requirements and conflict of interest rules may limit our ability to provide services to clients of the attest firms with which we have contractual relationships and the ability of such attest firms to provide attestation services to clients of ours.

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

Under these ASAs, CBIZ provides a range of services to the CPA firms, including (but not limited to): administrative functions such as office management, bookkeeping, and accounting; preparing marketing and promotion materials; providing office space, computer equipment, and systems support; and leasing administrative and professional staff. Services are performed in exchange for a fee. Fees earned by CBIZ under the ASAs are recorded as revenue in the accompanying consolidated statements of operations. In the event that accounts receivable and unbilled work in process become uncollectible by the CPA firms, the service fee due to CBIZ is reduced on a pro-rata basis.

With respect to CPA firm clients that are required to file audited financial statements with the SEC, the SEC staff views CBIZ and the CPA firms with which we have contractual relationships as a single entity in applying independence rules established by the accountancy regulators and the SEC. Accordingly, we do not hold any financial interest in, nor do we enter into any business relationship with, an SEC-reporting attest client that the CPA firm performing an audit could not maintain; further, we do not sell any non-audit services to an SEC-reporting attest client that the CPA firm performing an audit could not maintain, under the auditor independence limitations set out in the Sarbanes-Oxley Act of 2002 and other professional accountancy independence standards. Applicable professional standards generally permit the Financial Services practice group to provide additional services to privately-held companies, in addition to those services which may be provided to SEC-reporting attest clients of an associated CPA firm. CBIZ and the CPA firms with which we are associated have implemented policies and procedures designed to enable us to maintain independence and freedom from conflicts of interest in accordance with applicable standards. Given the pre-existing limits set by CBIZ on its relationships with SEC-reporting attest clients of associated CPA firms, and the limited number and size of such clients, the imposition of Sarbanes-Oxley Act independence limitations did not and is not expected to materially affect CBIZ revenues.

There can be no assurance that following the policies and procedures implemented by us and the attest firms will enable us and the attest firms to avoid circumstances that would cause us and them to lack independence from an SEC-reporting attest client; nor can there be any assurance that state accountancy authorities will not extend current restrictions on the profession to include private companies. To the extent that licensed CPA firms for whom we provide administrative and other services are affected, we may experience a decline in fee revenue from these businesses as well. To date, revenues derived from providing services in connection with attestation engagements of the attest firms performed for SEC-reporting clients have not been material.

Governmental regulations and interpretations are subject to changes.

Laws and regulations often result in changes in the amount or the type of business services required by businesses and individuals. We cannot be sure that future laws and regulations will provide the same or similar opportunities for us to provide business consulting and management services to businesses and individuals. State insurance

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regulators have conducted inquiries to clarify the nature of compensation arrangements within the insurance brokerage industry. Future regulatory action may limit or eliminate our ability to enhance revenue through all current compensation arrangements, and may result in a diminution of future insurance brokerage revenue from these sources. Accordingly, CBIZ's ability to continue to operate in some states may depend on our flexibility to modify our operational structure in response to these changes in regulations.

Changes in government and managed care reimbursement rules and rates, as well as other practices, may adversely affect the revenue of our current medical management business.