

CBIZ, Inc.
Form 10-Q
November 09, 2009

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**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, 2009

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

22-2769024

(State or other jurisdiction of incorporation
or organization)

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

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

44131

(Address of principal executive offices)

(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 ☐

☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☒

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting
company ☐

(Do not check if a smaller
reporting company)

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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, 2009
Common Stock, par value \$0.01 per share	61,651,148

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

	SEPTEMBER 30, 2009	DECEMBER 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,589	\$ 9,672
Restricted cash	13,983	15,786
Accounts receivable, net	148,945	129,164
Notes receivable current, net	1,454	2,133
Income taxes refundable		3,271
Deferred income taxes current	7,802	6,750
Other current assets	10,792	11,540
Assets of discontinued operations	230	249
Current assets before funds held for clients	186,795	178,565
Funds held for clients current	60,134	103,097
Total current assets	246,929	281,662
Property and equipment, net	28,336	30,835
Notes receivable non-current, net	1,123	927
Deferred income taxes non-current, net	294	1,383
Goodwill and other intangible assets, net	365,593	350,216
Assets of deferred compensation plan	25,893	19,711
Funds held for clients non-current	10,447	10,024
Other assets	3,197	3,834
Total assets	\$ 681,812	\$ 698,592
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 27,031	\$ 29,013
Income taxes payable current	3,051	
Accrued personnel costs	36,826	40,869
Notes payable current	4,121	1,064
Other current liabilities	16,866	18,478
Liabilities of discontinued operations	449	769
Current liabilities before client fund obligations	88,344	90,193
Client fund obligations	73,523	116,638
Total current liabilities	161,867	206,831

Convertible notes, net	92,832	89,887
Bank debt	115,700	125,000
Income taxes payable non-current	6,544	6,797
Deferred compensation plan obligations	25,893	19,711
Other non-current liabilities	13,285	8,767
 Total liabilities	 416,121	 456,993
STOCKHOLDERS EQUITY		
Common stock	1,077	1,068
Additional paid-in capital	514,918	508,023
Retained earnings (accumulated deficit)	20,149	(10,155)
Treasury stock	(269,396)	(256,295)
Accumulated other comprehensive loss	(1,057)	(1,042)
 Total stockholders equity	 265,691	 241,599
 Total liabilities and stockholders equity	 \$ 681,812	 \$ 698,592

See the accompanying notes to the consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
Revenue	\$ 179,023	\$ 168,159	\$ 588,272	\$ 540,713
Operating expenses	163,783	148,721	511,723	461,402
Gross margin	15,240	19,438	76,549	79,311
Corporate general and administrative expenses	8,491	7,270	23,887	22,313
Operating income	6,749	12,168	52,662	56,998
Other income (expense):				
Interest expense	(3,181)	(2,702)	(10,221)	(8,044)
Gain on sale of operations, net	910	229	1,004	470
Other income (expense), net	3,144	(3,018)	5,449	(4,030)
Total other income (expense), net	873	(5,491)	(3,768)	(11,604)
Income from continuing operations before income tax expense	7,622	6,677	48,894	45,394
Income tax expense	2,542	2,348	19,123	17,441
Income from continuing operations after income tax expense	5,080	4,329	29,771	27,953
Income (loss) from discontinued operations, net of tax	(4)	(56)	131	(250)
Gain (loss) on disposal of discontinued operations, net of tax	27	132	178	(308)
Net income	\$ 5,103	\$ 4,405	\$ 30,080	\$ 27,395
Earnings (loss) per share:				
Basic:				
Continuing operations	\$ 0.08	\$ 0.07	\$ 0.48	\$ 0.45
Discontinued operations			0.01	(0.01)
Net income	\$ 0.08	\$ 0.07	\$ 0.49	\$ 0.44

Diluted:				
Continuing operations	\$ 0.08	\$ 0.07	\$ 0.48	\$ 0.45
Discontinued operations			0.01	(0.01)
Net income	\$ 0.08	\$ 0.07	\$ 0.49	\$ 0.44
Basic weighted average shares outstanding	61,176	61,171	61,302	62,080
Diluted weighted average shares outstanding	61,712	61,772	61,897	62,801

See the accompanying notes to the consolidated financial statements.

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

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 30,080	\$ 27,395
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
(Income) loss from operations of discontinued operations, net of tax	(131)	250
(Gain) loss on disposal of discontinued operations, net of tax	(178)	308
Gain on sale of operations, net	(1,004)	(470)
Amortization of discount on convertible notes	2,946	2,729
Impairment of auction rate security		1,381
Bad debt expense, net of recoveries	6,257	4,161
Depreciation and amortization expense	15,259	11,346
Deferred income taxes	(138)	(3,392)
Excess tax benefits from share based payment arrangements	(397)	(1,719)
Employee stock awards	3,465	2,783
<i>Changes in assets and liabilities, net of acquisitions and divestitures:</i>		
Restricted cash	1,803	1,186
Accounts receivable, net	(25,904)	(23,368)
Other assets	1,399	1,011
Accounts payable	(1,993)	1,016
Income taxes payable	6,362	487
Accrued personnel costs	(4,048)	(4,349)
Other liabilities	324	4,558
Net cash provided by continuing operations	34,102	25,313
Operating cash flows used in discontinued operations		(1,539)
Net cash provided by operating activities	34,102	23,774
Cash flows from investing activities:		
Business acquisitions and contingent consideration, net of cash acquired	(17,112)	(24,966)
Acquisition of other intangible assets	(11)	(810)
Proceeds from sales of divested and discontinued operations	788	4,893
Additions to property and equipment, net	(3,446)	(5,109)
Additions to notes receivable		(170)
Payments received on notes receivable	729	373
Net cash used in investing activities	(19,052)	(25,789)
Cash flows from financing activities:		
Proceeds from bank debt	334,795	218,600
Payment of bank debt	(344,095)	(188,600)

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Payment of notes payable and capitalized leases	(220)	(410)
Payment for acquisition of treasury stock	(13,101)	(37,819)
Proceeds from exercise of stock options	1,127	3,988
Excess tax benefit from exercise of stock awards	397	1,719
Debt issuance costs	(36)	(106)
Net cash used in financing activities	(21,133)	(2,628)
Net decrease in cash and cash equivalents	(6,083)	(4,643)
Cash and cash equivalents at beginning of year	9,672	12,144
Cash and cash equivalents at end of period	\$ 3,589	\$ 7,501

See the accompanying notes to the consolidated financial statements.

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CBIZ, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Summary of Significant Accounting Policies

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

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting solely of normal recurring adjustments) considered necessary to present fairly the financial position of CBIZ, Inc. and its consolidated subsidiaries (CBIZ or the Company) as of September 30, 2009 and December 31, 2008, the consolidated results of their operations for the three and nine months ended September 30, 2009 and 2008, and the cash flows for the nine months ended September 30, 2009 and 2008. Due to seasonality, potential changes in economic conditions, interest rate fluctuations and other factors, the results of operations for such interim periods are not necessarily indicative of the results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in CBIZ 's Annual Report on Form 10-K for the year ended December 31, 2008.

Principles of Consolidation

The accompanying consolidated financial statements reflect the operations of CBIZ and all of its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements do not reflect the operations or accounts of variable interest entities as the impact is not material to the financial condition, results of operations or cash flows of CBIZ. See CBIZ 's Annual Report on Form 10-K for the year ended December 31, 2008 for further discussion.

Use of Estimates

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

Reclassifications

Certain amounts in the 2008 consolidated financial statements and disclosures have been reclassified to conform to the current year presentation and revised to reflect the retroactive application of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 470-20 Debt with Conversion and Other Options .

Revenue Recognition and Valuation of Unbilled Revenues

Revenue is recognized only when all of the following are present: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee to the client is fixed or determinable, and

collectability is reasonably assured. These criteria are in accordance with GAAP.

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CBIZ, INC. AND SUBSIDIARIES

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

CBIZ offers a vast array of products and business services to its clients. Those services are delivered through four practice groups. A description of revenue recognition, as it related to those groups, is included in the Annual Report on Form 10-K for the year ended December 31, 2008.

New Accounting Pronouncements

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued new accounting guidance on consolidation of variable interest entities, which eliminates exceptions to consolidating qualifying special-purpose entities, changes the approach to determining the primary beneficiary of a variable interest entity (VIE) and requires companies to more frequently assess whether they must consolidate VIEs. This new guidance is effective for annual periods beginning after November 15, 2009. Adoption of this new guidance is not expected to have a material impact on CBIZ 's consolidated financial statements.

Recently Adopted Accounting Pronouncements

In June 2009, the FASB issued new accounting guidance entitled The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 , (Codification). This new guidance identifies the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-SEC accounting literature not included in the Codification became non-authoritative. This new guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The impact of adopting the Codification caused a change in references to authoritative GAAP in CBIZ 's consolidated financial statements, but did not have an impact on CBIZ 's consolidated balance sheets, consolidated statements of operations, or consolidated statements of cash flows.

In May 2008, the FASB issued FASB ASC 470-20 Debt with Conversion and Other Options, which requires issuers of convertible debt instruments that may be settled wholly or partially with cash, to separately account for the liability and equity components of the instruments in a manner that reflects the convertible debt borrowing rate, absent the conversion feature, when interest expense is recognized in subsequent periods. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional interest expense.

FASB ASC 470-20 became effective for CBIZ on January 1, 2009 and impacts the accounting associated with CBIZ 's \$100.0 million convertible senior subordinated notes (Notes) which were issued in May 2006 (further described in Note 5). The provisions of FASB ASC 470-20 were applied retrospectively and resulted in a reduction in the carrying value of the Notes, and increases to stockholders ' equity and interest expense from what was reported in historical financial statements. The additional interest expense is a non-cash expense and thus did not impact total operating, investing or financing cash flows.

The liability component was determined based upon discounted cash flows and the discount was determined to be \$19.1 million at the date of issuance. The equity component (recorded as additional paid-in-capital) is \$11.4 million and represents the difference between the \$100.0 million proceeds from issuance of the Notes and the fair value of the liability component, net of tax, and certain debt issuance costs.

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

The following table sets forth the effect of the retrospective application of FASB ASC 470-20 on accounting for convertible notes on certain previously reported line items (in thousands, except per share data):

Consolidated Statements of Operations:

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	Originally Reported	As Adjusted	Originally Reported	As Adjusted
Interest expense	\$ 1,804	\$ 2,702	\$ 5,409	\$ 8,044
Income tax expense	\$ 2,689	\$ 2,348	\$ 18,442	\$ 17,441
Income from continuing operations	\$ 4,886	\$ 4,329	\$ 29,587	\$ 27,953
Net income	\$ 4,962	\$ 4,405	\$ 29,029	\$ 27,395
Earnings per share:				
Basic:				
Continuing operations	\$ 0.08	\$ 0.07	\$ 0.48	\$ 0.45
Discontinued operations			(0.01)	(0.01)
Net income	\$ 0.08	\$ 0.07	\$ 0.47	\$ 0.44
Diluted:				
Continuing operations	\$ 0.08	\$ 0.07	\$ 0.47	\$ 0.45
Discontinued operations			(0.01)	(0.01)
Net income	\$ 0.08	\$ 0.07	\$ 0.46	\$ 0.44

Consolidated Balance Sheets:

	December 31, 2008	
	Originally Reported	As Adjusted
Deferred income taxes non-current, net	\$ 5,111	\$ 1,383
Other assets	\$ 4,137	\$ 3,834
Convertible notes	\$ 100,000	\$ 89,887
Additional paid-in-capital	\$ 496,598	\$ 508,023
Accumulated deficit	\$ (4,812)	\$ (10,155)
Total stockholders equity	\$ 235,517	\$ 241,599
<i>Recently Adopted Accounting</i>		