CBIZ, Inc.
Form 10-Q
August 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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	**(I.R.S. Employer**
incorporation or organization)	**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 x 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 x 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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 July 31, 2012
Common Stock, par value $0.01 per share	49,872,432

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CBIZ, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands)

	JUNE 30, 2012	DECEMBER 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,069	$ 1,613
Restricted cash	21,770	19,838
Accounts receivable, net	164,083	137,073
Income taxes refundable		3,898
Deferred income taxes current	9,652	8,056
Other current assets	10,723	11,438
Assets of discontinued operations	505	559
Current assets before funds held for clients	209,802	182,475
Funds held for clients	83,846	109,854
Total current assets	293,648	292,329
Property and equipment, net	20,854	21,802
Goodwill and other intangible assets, net	465,463	458,340
Assets of deferred compensation plan	37,405	33,585
Other assets	5,468	6,301
Total assets	$ 822,838	$ 812,357
LIABILITIES		
Current liabilities:		
Accounts payable	$ 46,709	$ 34,960
Income taxes payable current	6,623	
Accrued personnel costs	30,795	33,658
Notes payable current	1,222	13,986
Other current liabilities	31,177	33,579
Liabilities of discontinued operations	185	199
Current liabilities before client fund obligations	116,711	116,382
Client fund obligations	83,620	109,800
Total current liabilities	200,331	226,182
Convertible notes, net	121,073	119,778
Bank debt	149,200	145,000
Income taxes payable non-current	4,667	4,441
Deferred income taxes non-current, net	1,829	1,893
Deferred compensation plan obligations	37,405	33,585
Other non-current liabilities	24,945	21,320

Total liabilities	539,450	552,199
STOCKHOLDERS EQUITY		
Common stock	1,117	1,111
Additional paid-in capital	554,254	551,205
Retained earnings	98,618	73,985
Treasury stock	(369,818)	(365,364)
Accumulated other comprehensive loss	(783)	(779)
Total stockholders equity	283,388	260,158
Total liabilities and stockholders equity	$ 822,838	$ 812,357

See the accompanying notes to the consolidated financial statements

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CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In thousands, except per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2012	2011	2012	2011
Revenue	$ 188,606	$ 183,464	$ 409,433	$ 393,533
Operating expenses	166,691	160,395	346,696	330,122
Gross margin	21,915	23,069	62,737	63,411
Corporate general and administrative expenses	7,638	6,744	18,182	16,304
Operating income	14,277	16,325	44,555	47,107
Other income (expense):				
Interest expense	(4,146)	(4,407)	(8,268)	(9,322)
Gain on sale of operations, net	50	2	2,639	2,745
Other (expense) income, net	(840)	27	2,598	3,108
Total other expense, net	(4,936)	(4,378)	(3,031)	(3,469)
Income from continuing operations before income tax expense	9,341	11,947	41,524	43,638
Income tax expense	3,512	5,095	16,928	18,682
Income from continuing operations after income tax expense	5,829	6,852	24,596	24,956
Gain (loss) from discontinued operations, net of tax	1	(331)	(3)	(570)
Gain on disposal of discontinued operations, net of tax	18	30	40	70
Net income	$ 5,848	$ 6,551	$ 24,633	$ 24,456
Earnings (loss) per share:				
Basic:				
Continuing operations	$ 0.12	$ 0.14	$ 0.50	$ 0.50
Discontinued operations		(0.01)		(0.01)
Net income	$ 0.12	$ 0.13	$ 0.50	$ 0.49
Diluted:				
Continuing operations	$ 0.12	$ 0.14	$ 0.50	$ 0.50
Discontinued operations		(0.01)		(0.01)
Net income	$ 0.12	$ 0.13	$ 0.50	$ 0.49
Basic weighted average shares outstanding	49,040	49,615	49,074	49,469
Diluted weighted average shares outstanding	49,244	49,958	49,391	49,880

Comprehensive Income:

Net income	5,848	6,551	24,633	24,456
Other comprehensive (loss) income, net of tax	(84)	(59)	(4)	341
Comprehensive income	$ 5,764	$ 6,492	$ 24,629	$ 24,797

See the accompanying notes to the consolidated financial statements

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CBIZ, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	SIX MONTHS ENDED JUNE 30, 2012	SIX MONTHS ENDED JUNE 30, 2011
Cash flows from operating activities:		
Net income	$ 24,633	$ 24,456
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss from discontinued operations, net of tax	(37)	500
Gain on sale of operations, net	(2,639)	(2,745)
Depreciation and amortization expense	10,534	9,995
Amortization of discount on notes and deferred financing costs	1,789	2,814
Bad debt expense, net of recoveries	2,321	2,155
Adjustment to contingent earnout liability	(7)	(1,069)
Deferred income taxes	(1,685)	(4,060)
Employee stock awards	2,869	2,914
Excess tax benefits from share based payment arrangements		(171)
Changes in assets and liabilities, net of acquisitions and divestitures:		
Restricted cash	(1,626)	260
Accounts receivable, net	(28,827)	(19,751)
Other assets	890	1,370
Accounts payable	11,420	(2,040)
Income taxes payable/refundable	9,792	11,220
Accrued personnel costs and other liabilities	(3,864)	(2,365)
Net cash provided by continuing operations	25,563	23,483
Operating cash flows used in discontinued operations	36	(599)
Net cash provided by operating activities	25,599	22,884
Cash flows from investing activities:		
Business acquisitions and contingent consideration, net of cash acquired	(21,119)	(10,866)
Purchases of client fund investments	(4,042)	(15,114)
Proceeds from the sales and maturities of client fund investments	3,301	9,196
Proceeds from sales of divested and discontinued operations	1,215	694
Net decrease (increase) in funds held for clients	27,321	(12,656)
Additions to property and equipment, net	(2,068)	(941)
Other	10	14
Net cash provided by (used in) investing activities	4,618	(29,673)
Cash flows from financing activities:		
Proceeds from bank debt	293,650	277,750
Payment of bank debt	(289,450)	(247,650)
Repurchase of convertible notes		(39,250)
Payment for acquisition of treasury stock	(4,454)	(648)
Net (decrease) increase in client funds obligations	(26,526)	16,174
Proceeds from exercise of stock options		768
Payment of contingent consideration of acquisitions	(1,832)	(330)
Excess tax benefit from exercise of stock awards		171

Debt issuance costs		(560)
Other	(149)	(149)
Net cash (used in) provided by financing activities	(28,761)	6,276
Net increase (decrease) in cash and cash equivalents	1,456	(513)
Cash and cash equivalents at beginning of year	1,613	724
Cash and cash equivalents at end of period	$ 3,069	$ 211

See the accompanying notes to the consolidated financial statements

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CBIZ, INC. AND SUBSIDIARIES

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

1. Summary of Significant Accounting Policies

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

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting solely of normal recurring adjustments) considered necessary to present fairly the financial position of CBIZ, Inc. and its consolidated subsidiaries (CBIZ or the Company) as of June 30, 2012 and December 31, 2011, the consolidated results of their operations for the three and six months ended June 30, 2012 and 2011, and the cash flows for the six months ended June 30, 2012 and 2011. 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, 2011.

Principles of Consolidation

The accompanying consolidated financial statements reflect the operations of CBIZ, Inc. 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, 2011 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, income tax uncertainties, 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 2011 consolidated financial statements and disclosures have been reclassified to conform to the current year presentation.

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.

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 policies is included in the Annual Report on Form 10-K for the year ended December 31, 2011.

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CBIZ, INC. AND SUBSIDIARIES

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

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05 (ASU 2011-05) Comprehensive Income (Topic 220): Presentation of Comprehensive Income , which states that comprehensive income should be presented in either one or two consecutive financial statements. Companies have the option to either present other comprehensive income on the same statement as net income, or as a separate statement that immediately follows the statement of net income. ASU 2011-05 was effective for the first reporting period after December 15, 2011, and was applied retrospectively. CBIZ adopted the provisions of ASU 2011-05 for the first quarter of 2012.

In May 2011, the FASB issued ASU No. 2011-04 (ASU 2011-04) Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 does not extend the use of fair value, but rather provides additional disclosure guidance about the application of fair value in those areas where fair value is already required or permitted, especially for Level 3 fair value measurements. ASU 2011-04 was effective for the first reporting period after December 15, 2011 and is to be applied prospectively. CBIZ adopted the provisions of ASU 2011-04 for the first quarter of 2012 and has provided additional disclosure in its discussion of fair value, especially for the Company s level 3 fair value disclosures.

2. Accounts Receivable, Net

Accounts receivable balances at June 30, 2012 and December 31, 2011 were as follows (in thousands):

	June 30, 2012	December 31, 2011
Trade accounts receivable	$ 128,340	$ 113,143
Unbilled revenue	46,226	33,150
Total accounts receivable	174,566	146,293
Allowance for doubtful accounts	(10,483)	(9,220)
Accounts receivable, net	$ 164,083	$ 137,073

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CBIZ, INC. AND SUBSIDIARIES

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

3. Goodwill and Other Intangible Assets, Net

The components of goodwill and other intangible assets, net at June 30, 2012 and December 31, 2011 were as follows (in thousands):

	June 30, 2012	December 31, 2011
Goodwill	$ 384,523	$ 377,281
Intangible assets:		
Client lists	135,309	128,537
Other intangible assets	8,388	9,826
Total intangible assets	143,697	138,363
Total goodwill and intangibles assets	528,220	515,644
Accumulated amortization:		
Client lists	(57,513)	(50,969)
Other intangible assets	(5,244)	(6,335)
Total accumulated amortization	(62,757)	(57,304)
Goodwill and other intangible assets, net	$ 465,463	$ 458,340

4. Depreciation and Amortization

Depreciation and amortization expense for property and equipment and intangible assets for the three and six months ended June 30, 2012 and 2011 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Operating expenses	$ 5,219	$ 4,877	$ 10,366	$ 9,815
Corporate general and administrative expenses	87	88	168	180
Total depreciation and amortization expense	$ 5,306	$ 4,965	$ 10,534	$ 9,995

5. Borrowing Arrangements

CBIZ had two primary debt arrangements at June 30, 2012 that provided the Company with the capital necessary to meet its working capital needs as well as the flexibility to continue with its strategic initiatives, including business acquisitions and share repurchases: the 2010 Convertible Senior Subordinated Notes (2010 Notes) totaling $130 million and a $275 million unsecured credit facility. In addition to the discussion below, refer to the Annual Report on Form 10-K for the year ended December 31, 2011 for additional details of CBIZ s borrowing arrangements.

2010 Convertible Senior Subordinated Notes

On September 27, 2010, CBIZ issued $130.0 million of 2010 Notes to qualified institutional buyers. The 2010 Notes are direct, unsecured, senior subordinated obligations of CBIZ. The 2010 Notes bear interest at a rate of 4.875% per annum, payable in cash semi-annually in arrears on April 1 and October 1. The 2010 Notes mature on October 1, 2015 unless earlier redeemed, repurchased or converted.

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CBIZ, INC. AND SUBSIDIARIES

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

CBIZ separately accounts for the debt and equity components of the 2010 Notes. The carrying amount of the debt and equity components at June 30, 2012 and December 31, 2011 were as follows (in thousands):

	June 30, 2012	December 31, 2011
Principal amount of notes	$ 130,000	$ 130,000
Unamortized discount	(9,677)	(10,972)
Net carrying amount	$ 120,323	$ 119,028
Additional paid-in-capital, net of tax	$ 8,555	$ 8,555

The discount is being amortized at an annual effective rate of 7.5% over the term of the 2010 Notes, which is five years from the date of issuance. At June 30, 2012, the unamortized discount had a remaining amortization period of approximately 39 months.

2006 Convertible Senior Subordinated Notes

At June 30, 2012, CBIZ still has $750,000 outstanding of its 3.125% Convertible Senior Subordinated Notes that were issued in 2006 (2006 Notes). These 2006 Notes are direct, unsecured, senior subordinated obligations of CBIZ. The 2006 Notes bear interest at a rate of 3.125% per annum, payable in cash semi-annually in arrears on each June 1 and December 1. The 2006 Notes mature on June 1, 2026 unless earlier redeemed, repurchased or converted.

CBIZ separately accounts for the debt and equity components of the 2006 Notes. The carrying amount of the debt and equity components at June 30, 2012 and December 31, 2011 were as follow (in thousands):

	June 30, 2012	December 31, 2011
Principal amount of notes	$ 750	$ 750
Unamortized discount		
Net carrying amount	$ 750	$ 750
Additional paid-in-capital, net of tax	$ 11,425	$ 11,425

During the three and six months ended June 30, 2012 and 2011, CBIZ recognized interest expense on the 2010 Notes and 2006 Notes as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Contractual coupon interest	$ 1,591	$ 1,795	$ 3,181	$ 3,692
Amortization of discount	659	912	1,295	1,953

Amortization of deferred financing costs	180	217	360	449
Total interest expense	$ 2,430	$ 2,924	$ 4,836	$ 6,094

CBIZ, INC. AND SUBSIDIARIES

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

Bank Debt

CBIZ maintains a $275 million unsecured credit facility (credit facility) with Bank of America as agent for a group of seven participating banks. The balance outstanding under the credit facility was $149.2 million and $145.0 million at June 30, 2012 and December 31, 2011, respectively. Rates for the six months ended June 30, 2012 and 2011 were as follows:

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Weighted average rates	3.22%	3.52%
Range of effective rates	2.69% - 3.91%	2.66% - 5.75%

CBIZ had approximately $8.8 million of available funds under the credit facility at June 30, 2012. The credit facility provides CBIZ operating flexibility and funding to support seasonal working capital needs and other strategic initiatives such as acquisitions and share repurchases. The maturity date of the credit facility is June 2015. CBIZ believes it is in compliance with its debt covenants at June 30, 2012.

6. Commitments and Contingencies

Letters of Credit and Guarantees

CBIZ provides letters of credit to landlords (lessors) of its leased premises in lieu of cash security deposits which totaled $2.5 million as of June 30, 2012 and December 31, 2011. In addition, CBIZ provides license bonds to various state agencies to meet certain licensing requirements. The amount of license bonds outstanding at June 30, 2012 and December 31, 2011 was $2.8 million and $1.6 million, respectively.

CBIZ acted as guarantor on various letters of credit for a CPA firm with which it has an affiliation, which totaled $5.2 million as of June 30, 2012 and December 31, 2011. CBIZ has recognized a liability for the fair value of the obligations undertaken in issuing these guarantees, which is recorded as other current liabilities in the accompanying consolidated balance sheets. Management does not expect any material changes to result from these instruments as performance under the guarantees is not expected to be required.

Legal Proceedings

In May, June, July, August and September of 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 United States District Court for the District of Arizona (Robert Facciola, et al v. Greenberg Traurig LLP, et al.) and in the Superior Court for Maricopa County Arizona (Victims Recovery, LLC v. Greenberg Traurig LLP, et al.; Roger Ashkenazi, et al v. Greenberg Traurig LLP, et al.; Mary Marsh, et al v. Greenberg Traurig LLP, et al.; and ML Liquidating Trust v. Mayer Hoffman McCann PC, et al.), respectively. The Maricopa County cases were removed to the United States District Court or Bankruptcy Court and all have since been remanded to the Superior Court for Maricopa County. Additionally, in November 2009, CBIZ MHM, LLC was named as a defendant in the United States District Court for the District of Arizona (Jeffery C. Stone v. Greenberg Traurig LLP, et al.). The Stone case has been voluntarily dismissed by the plaintiff in that matter.

These matters arise out of the bankruptcy proceedings related to Mortgages Ltd., a mortgage lender to developers in the Phoenix, Arizona area. Various other professional firms not related to the Company are also defendants in these lawsuits. The motion phase of these proceedings has commenced.

CBIZ, INC. AND SUBSIDIARIES

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

The plaintiffs, except for those in the Stone and ML Liquidating Trust cases, are all alleged to have directly or indirectly invested in real estate mortgages through Mortgages Ltd. The Victims Recovery, Ashkenazi and Marsh plaintiffs seek monetary damages equivalent to the amounts of their investments. The plaintiff in the ML Liquidating Trust matter asserts errors and omissions and breach of contract claims, and is seeking monetary damages. The plaintiffs in these suits also seek pre- and post-judgment interest, punitive damages and attorneys fees.

Mortgages Ltd. had been audited by Mayer Hoffman McCann PC (Mayer Hoffman), a CPA firm which has an administrative services agreement with CBIZ. The claims against the CBIZ Parties seek to impose auditor-type liabilities upon the CBIZ Parties for audits it did not conduct. Specific claims include securities fraud, common law fraud, negligent misrepresentation, Arizona Investment Management Act violations, control-person liability, aiding and abetting and conspiracy. CBIZ is not a CPA firm, does not provide audits, and did not audit any of the entities at issue in these lawsuits.

In June 2011 the Facciola court, in which the plaintiffs were seeking to certify a class of all Mortgages Ltd. investors, granted the motions to dismiss filed by the CBIZ Parties and Mayer Hoffman. After that dismissal order, the plaintiffs moved the court to amend their complaint in an attempt to state a claim against the CBIZ Parties and Mayer Hoffman. In November 2011, the Facciola court denied the plaintiffs request to amend the complaint as to the CBIZ Parties and Mayer Hoffman. The Facciola case is now proceeding only against the remaining defendants.

The CBIZ Parties deny all allegations of wrongdoing made against them in these actions and are vigorously defending the proceedings. The Company has been advised by Mayer Hoffman that it denies all allegations of wrongdoing made against it and that it intends to continue vigorously defending the matters. Although the proceedings are subject to uncertainties inherent in the litigation process and the ultimate disposition of these proceedings is not presently determinable, management believes that the allegations are without merit and that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company.

In January 2012 the CBIZ Parties were added as defendants to a lawsuit filed in the Superior Court of California for Orange County (Signature Financial Group, Inc., et al, (Signature) v. Mayer Hoffman McCann, P.C., et al). This lawsuit arises out of a review of the financial statements of Medical Capital Holdings, Inc. (Medical Capital) by Mayer Hoffman. In June 2009 Medical Capital was sued by the SEC and a receiver was appointed to liquidate Medical Capital. The plaintiffs in the Signature lawsuit are financial advisors that sold Medical Capital investments to their clients. Those plaintiffs were sued by their clients for losses related to Medical Capital and now seek to recover damages from the CBIZ Parties and Mayer Hoffman for the losses and expenses they incurred in litigation with their respective clients and lost profits. The Signature lawsuit seeks to impose auditor-type liabilities upon the CBIZ Parties for attest services they did not conduct. Specific claims include fraud, intentional misrepresentation and concealment; negligent misrepresentation; equitable indemnity; declaratory relief and respondeat superior.

The CBIZ Parties deny all allegations of wrongdoing made against them in the Signature lawsuit and are vigorously defending the proceeding. The Company has been advised by Mayer Hoffman that it denies all allegations of wrongdoing made against it and that it intends to continue vigorously defending the matters. Although the proceedings are subject to uncertainties inherent in the litigation process and the ultimate disposition of these proceedings is not presently determinable, management believes that the allegations are without merit and that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company.

In addition to those items disclosed above, the Company is, from time to time, subject to claims and suits arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the consolidated financial condition, results of operations or cash flows of the Company.

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CBIZ, INC. AND SUBSIDIARIES

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

7. Financial Instruments

Bonds

In connection with CBIZ s payroll business and the collection of client funds, CBIZ invests a portion of these funds in corporate and municipal bonds. CBIZ held corporate and municipal bonds with par values totaling $30.1 million and $29.4 million at June 30, 2012 and December 31, 2011, respectively. All bonds are investment grade and are classified as available-for-sale. These bonds have maturity dates or callable dates ranging from August 2012 through August 2017, and are included in Funds held for clients on the consolidated balance sheets based on the intent and ability of the Company to sell these investments at any time under favorable conditions. The following table summarizes CBIZ s bond activity for the six months ended June 30, 2012 and the twelve months ended December 31, 2011 (in thousands):

	Six Months Ended June 30, 2012	Twelve Months Ended December 31, 2011
Fair value at beginning of period	$ 30,923	$ 15,255
Purchases	4,042	19,643
Sales	(2,000)	(3,000)
Maturities and calls	(1,275)	(1,916)
(Decrease) increase in bond premium	(123)	914
Fair market value adjustment	199	27
Fair value at end of period	$ 31,766	$ 30,923

Interest Rate Swaps

CBIZ uses interest rate swaps to manage interest rate risk exposure primarily through converting portions of floating rate debt under the 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. CBIZ does not enter into derivative instruments for trading or speculative purposes. See the Annual Report on Form 10-K for the year ended December 31, 2011 for further discussion on CBIZ s interest rate swaps.

At June 30, 2012 and December 31, 2011, the interest rate swap was classified as a liability derivative. The following table summarizes CBIZ s outstanding interest rate swap and its classification on the consolidated balance sheets at June 30, 2012 and December 31, 2011 (in thousands).

	June 30, 2012		
	Notional Amount	Fair Value (2)	Balance Sheet Location
Interest rate swap (1)	$ 40,000	$ (817)	Other non-current liabilities

	December 31, 2011		
	Notional Amount	Fair Value (2)	Balance Sheet Location
Interest rate swap (1)	$ 40,000	$ (670)	Other non-current liabilities

(1) Represents interest rate swap with a notional value of $40.0 million, of which $25.0 million will expire in June 2014 and the remaining $15.0 million will expire in June 2015. Under the terms of the interest rate swap, CBIZ pays interest at a fixed rate of 1.41% plus applicable margin as stated in the agreement, and received interest that varied with the three-month LIBOR.

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

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CBIZ, INC. AND SUBSIDIARIES

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

All swaps were deemed to be effective for the three and six months ended June 30, 2012 and 2011. The following table summarizes the effects of interest rate swaps on CBIZ s consolidated statements of comprehensive income for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Loss Recognized in AOCL, net of tax		Loss Reclassified from AOCL into Expense	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2012	2011	2012	2011
Interest rate swap	$ (50)	$ (42)	$ 95	$ 30
	Six Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest rate swaps	$ (93)	$ (32)	$ 185	$ 45

8. Fair Value Measurements

Valuation hierarchy under GAAP categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

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

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

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

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table summarizes CBIZ s assets and liabilities at June 30, 2012 and December 31, 2011 that are measured at fair value on a recurring basis subsequent to initial recognition and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

	Level	June 30, 2012	December 31, 2011
Deferred compensation plan assets	1	$ 37,405	$ 33,585
Corporate bonds	1	$ 31,766	$ 30,923

Interest rate swaps	2	$ (817)	$ (670)
Contingent purchase price liabilities	3	$ (25,864)	$ (25,325)

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CBIZ, INC. AND SUBSIDIARIES

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

During the six months ended June 30, 2012 and 2011, there were no transfers between the valuation hierarchy Levels 1, 2 and 3. The following table summarizes the change in fair values of the Company s liability identified as Level 3 for the six months ended June 30, 2012 (pre-tax basis) (in thousands):

	Contingent Purchase Price Liabilities
Beginning balance January 1, 2012	$ (25,325)
Additions from business acquisitions	(2,528)
Payment of contingent purchase price liabilities	1,982
Change in fair value of contingencies	111
Change in net present value of contingencies	(104)
Ending balance June 30, 2012	$ (25,864)

Contingent Purchase Price Liabilities Contingent purchase price liabilities arise from business acquisitions and are classified as Level 3 due to the utilization of a probability weighted discounted cash flow approach to determine the fair value of the contingency. A contingent liability is established for each acquisition that has a contingent purchase price component and normally extends over a three year term. The significant unobservable input used in the fair value measurement of the contingent purchase price liabilities is the future performance of the acquired business. The future performance of the acquired business directly impacts the contingent purchase price that is paid to the seller, thus performance that exceeds target could result in a higher payout, and a performance under target could result in a lower payout. Changes in the expected amount of potential payouts are recorded as adjustments to the initial contingent purchase price liability, with the same amount being recorded in the consolidated statements of comprehensive income. These liabilities are reviewed quarterly and adjusted if necessary. The risk of a large adjustment in any one reporting period is mitigated by the regular reviews of the performance of the acquired businesses and their respective contingent purchase price liability. The contingent purchase price liabilities are included in Other current liabilities and Accrued expenses non-current , depending on the expected settlement date. See Note 12 for further discussion of contingent purchase price liabilities.

The following table presents financial instruments that are not carried at fair value but which require fair value disclosure as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
2006 Convertible Notes	$ 750	$ 750	$ 750	$ 750
2010 Convertible Notes	$ 120,323	$ 136,412	$ 119,028	$ 141,690

Although the trading of CBIZ s 2006 Notes and 2010 Notes is limited, the fair value was determined based upon their most recent quoted market price and as such, is considered to be a Level 1 fair value measurement. The 2006 Notes and the 2010 Notes are carried at face value less any unamortized debt discount. See Note 5 for further discussion of CBIZ s debt instruments.

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

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CBIZ, INC. AND SUBSIDIARIES

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

9. 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 six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net unrealized (loss) gain on available-for-sale securities, net of income taxes (1)	$ (19)	$	$ 120	$ 405
Net unrealized loss on interest rate swaps, net of income taxes (2)	(50)	(42)	(93)	(32)
Foreign currency translation	(15)	(17)	(31)	(32)
Total other comprehensive (loss) income	$ (84)	$ (59)	$ (4)	$ 341

(1) Net of income tax benefit of $13 and $0 for the three months ended June 30, 2012 and 2011, respectively, and net of income tax expense of $80 and $121 for the six months ended June 30, 2012 and 2011, respectively.

(2) Net of income tax benefit of $29 and $25 for the three months ended June 30, 2012 and 2011, respectively, and net of income tax benefit of $55 and $19 for the six months ended June 30, 2012 and 2011, respectively.

Accumulated other comprehensive loss, net of tax, was approximately $0.8 million at June 30, 2012 and December 31, 2011. Accumulated other comprehensive loss consisted of adjustments, net of tax, to unrealized gains and losses on available-for-sale securities and an interest rate swap, and adjustments for foreign currency translation.

10. Employer Share Plans

CBIZ has granted various stock-based awards under its 2002 Stock Incentive Plan, which is described in further detail in CBIZ s Annual Report on Form 10-K for the year ended December 31, 2011. The terms and vesting schedules for stock-based awards vary by type and date of grant. Compensation expense for stock-based awards recognized during the three and six months ended June 30, 2012 and 2011 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Stock options	$ 687	$ 844	$ 1,470	$ 1,561
Restricted stock awards	676	746	1,399	1,353
Total stock-based compensation expense	$ 1,363	$ 1,590	$ 2,869	$ 2,914

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CBIZ, INC. AND SUBSIDIARIES

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

Stock award activity during the six months ended June 30, 2012 was as follows (in thousands, except per share data):

	Stock Options		Restricted Stock Awards	
	Number of Options	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Grant-Date Fair Value (1)
Outstanding at beginning of year	6,825	$ 7.54	983	$ 7.30
Granted	1,465	$ 5.87	498	$ 5.99
Exercised or released			(394)	$ 7.39
Expired or canceled	(615)	$ 7.99	(9)	$ 7.18
Outstanding at June 30, 2012	7,675	$ 7.19	1,078	$ 6.66
Exercisable at June 30, 2012	4,095	$ 7.63		

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

11. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the three and six months ended June 30, 2012 and 2011 (in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Income from continuing operations	$ 5,829	$ 6,852	$ 24,596	$ 24,956
Denominator:				
Basic				
Weighted average common shares outstanding	49,040	49,615	49,074	49,469
Diluted				
Stock options (1)		66		78
Restricted stock awards	93	132	206	188
Contingent shares (2)	111	145	111	145
Diluted weighted average common shares outstanding	49,244	49,958	49,391	49,880

Basic earnings per share from continuing operations	$ 0.12	$ 0.14	$ 0.50	$ 0.50
Diluted earnings per share from continuing operations	$ 0.12	$ 0.14	$ 0.50	$ 0.50

(1) A total of 7.5 million and 7.4 million share based awards were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2012, respectively, and a total of 6.8 million and 6.1 million share based awards were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2011, respectively, as their exercise prices would render them anti-dilutive.

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

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CBIZ, INC. AND SUBSIDIARIES

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

12. Acquisitions

During the six months ended June 30, 2012, CBIZ acquired substantially all of the assets of two companies, Meridian Insurance Group, LLC (Meridian) and Primarily Care, Inc. (PCI). Meridian, with offices in Boca Raton, Florida and Atlanta, Georgia, is an insurance brokerage specializing in multiple insurance products and services including property and casualty, bonding, personal lines and employee benefits. PCI, located in Cranston, Rhode Island, is an employee benefits brokerage firm that offers long-term healthcare cost reduction strategies through a unique system comprised of technology, innovative plan design, educational tools and tangible financial health incentives. The operating results of Meridian and PCI are reported in the Employee Services practice group. Aggregate consideration for these acquisitions consisted of approximately $6.8 million in cash, $0.8 million in CBIZ common stock, $1.7 million in guaranteed future consideration, and $2.5 million in contingent consideration.

The preliminary aggregate purchase price for these acquisitions was allocated as follows (in thousands):

Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	$ 654
Fixed Assets	63
Identifiable intangible assets	5,010
Accrued liabilities	(654)
Total identifiable net assets	$ 5,073
Goodwill	6,744
Aggregate purchase price	$ 11,817

Under the terms of the acquisition agreements, a portion of the purchase price is contingent on future performance of the businesses acquired. The maximum potential undiscounted amount of all future payments that CBIZ could be required to make under the contingent arrangements is $3.8 million. CBIZ is required to record the fair value of this obligation at the acquisition date. CBIZ determined, utilizing a probability weighted income approach, that the fair value of the contingent consideration arrangement was $2.5 million, of which $0.3 million was recorded in Other current liabilities and $2.2 million was recorded in Other non-current liabilities in the consolidated balance sheet at June 30, 2012.

The goodwill of $6.7 million arising from the acquisitions in the current year consists largely of expected future earnings and cash flow from the existing management team, as well as the synergies created by the integration of the new business within the CBIZ organization, including cross-selling opportunities expected with the Company s Financial Services group and the Employee Services group, to help strengthen the Company s existing service offerings and expand the Company s market position. Goodwill recognized is deductible for income tax purposes.

CBIZ also purchased two client lists, one of which is reported in the Employee Services practice group and the other is reported in the Financial Services practice group. Aggregate consideration for these client lists consisted of $0.4 million cash paid at closing and up to an additional $2.5 million in cash which is contingent upon future financial performance of the client lists.

In addition, CBIZ paid $15.7 million in cash and issued approximately 263,000 shares of common stock during the six months ended June 30, 2012 as contingent earnouts for previous acquisitions, which includes approximately 251,100 shares of common stocks that were earned in 2011. During the six months ended June 30, 2012, CBIZ also reduced the fair value of the contingent purchase price liability related to CBIZ s prior acquisitions by $0.1 million due to lower than originally projected future results of the acquired businesses. This reduction of $0.1 million is included in Other (expense) income, net in the consolidated statements of comprehensive income. Refer to Note 8 for further discussion of contingent purchase price liabilities.

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CBIZ, INC. AND SUBSIDIARIES

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

During the six months ended June 30, 2011, CBIZ did not acquire any businesses or client lists. CBIZ paid $11.3 million in cash and issued approximately 265,000 shares of common stock during the six months ended June 30, 2011 as contingent earnouts for previous acquisitions. In addition, CBIZ reduced the fair value of the contingent purchase price liability related to CBZ s prior acquisitions by $1.2 million due to lower than originally projected future results of the acquired businesses. This reduction of $1.2 million is included in Other (expense) income, net in the consolidated statements of comprehensive income.

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

Additions to goodwill, client lists and other intangible assets resulting from acquisitions and contingent consideration earned on prior period acquisitions during the six months ended June 30, 2012 and 2011, respectively, were as follows (in thousands):

	2012	2011
Goodwill	$ 7,241	$ 21
Client lists	$ 7,173	$ 108
Other intangible assets	$ 220	$

13. Discontinued Operations and Divestitures

CBIZ will divest (through sale or closure) business operations that do not contribute to the Company s long-term objectives for growth or that are not complementary to its target service offerings and markets. Divestitures are classified as discontinued operations provided they meet the criteria as provided in FASB ASC 205 Presentation of Financial Statements Discontinued Operations Other Presentation Matters .

Discontinued Operations

Gains from the sale of discontinued operations are recorded as Gain on disposal of discontinued operations, net of tax , in the accompanying consolidated statements of comprehensive income. In addition, proceeds that are contingent upon a divested operation s actual future performance are recorded as gain on disposal of discontinued operations, net of tax in the period they are earned. During the six months ended June 30, 2012, CBIZ did not discontinue the operations of any of its businesses and did not sell any operations. Gains recorded for the six months ended June 30, 2012 related to contingent proceeds on sales of a discontinued operation that occurred in a prior period.

During the six months ended June 30, 2011, CBIZ sold a business from the Financial Services practice group and will receive contingent proceeds from this sale transaction based on revenue over the next three-year period. As part of the sale of this business, CBIZ reduced its goodwill balance by approximately $0.3 million. For those businesses that qualified for treatment as discontinued operations, the assets, liabilities and results of operations are reported separately in the accompanying consolidated financial statements.

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CBIZ, INC. AND SUBSIDIARIES

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

Revenue and results from operations of discontinued operations for the three and six months ended June 30, 2012 and 2011 are separately reported as Gain (loss) from discontinued operations, net of tax in the consolidated statements of comprehensive income and were as follows (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue	$	$ 346	$	$ 943
Gain (loss) from discontinued operations, before income tax	$ 1	$ (528)	$ (5)	$ (933)
Income tax benefit		197	2	363
Gain (loss) from discontinued operations, net of tax	$ 1	$ (331)	$ (3)	$ (570)

Gain on the disposal of discontinued operations for the three and six months ended June 30, 2012 and 2011 were as follows (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Gain on disposal of discontinued operations, before income tax	$ 28	$ 50	$ 63	$ 117
Income tax expense	10	20	23	47
Gain on disposal of discontinued operations, net of tax	$ 18	$ 30	$ 40	$ 70

At June 30, 2012 and December 31, 2011, the assets and liabilities of businesses classified as discontinued operations are reported separately in the accompanying consolidated financial statements and consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Assets:		
Accounts receivable, net	$ 16	$ 38
Other assets	489	521
Assets of discontinued operations	$ 505	$ 559
Liabilities:		
Accounts payable	$ 5	$
Other current liabilities	180	199
Liabilities of discontinued operations	$ 185	$ 199

Divestitures

Gains and losses from divested operations and assets that do not qualify for treatment as discontinued operations are recorded as Gain on sale of operations, net in the consolidated statements of comprehensive income. During the six months ended June 31, 2012, CBIZ recognized a contingent gain of $2.5 million from the 2011 sale of its individual wealth management business and gains of $0.1 million from the sales of client lists. Cash proceeds from the sales totaled approximately $1.0 million.

During the six months ended June 30, 2011, CBIZ recognized a gain of $2.3 million from the sale of its individual wealth management business and gains of $0.4 million from the sales of client lists. Cash proceeds from the sale of the business and client list totaled approximately $7.2 million, of which approximately $6.7 million was received on December 31, 2010. As part of the sale of the individual wealth management business in the first quarter of 2011, CBIZ s goodwill was reduced by approximately $2.2 million.

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CBIZ, INC. AND SUBSIDIARIES

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

14. Segment Disclosures

CBIZ s business units have been aggregated into four practice groups: Financial Services, Employee Services, Medical Management Professionals (MMP), and National Practices. The business units have been aggregated based on the following factors: similarity of the products and services provided to clients; similarity of the regulatory environment 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 following table.

Financial Services	Employee Services	MMP	National Practices
Accounting	Employee Benefits	Coding and Billing	Managed Networking and Hardware Services
Tax	Property & Casualty	Accounts Receivable Management	Health Care Consulting
Financial Advisory	Retirement Plan Services	Full Practice Management Services	Mergers & Acquisitions
Valuation	Payroll Services		
Litigation Support	Life Insurance		
Internal Audit	Human Capital Services		
Family Office Services	Compensation Consulting		
Fraud Detection	Recruiting		
Real Estate Advisory	Actuarial Services		

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 gains or losses attributable to assets held in the Company s deferred compensation plan, stock-based compensation, certain health care costs, consolidation and integration charges, certain advertising costs and other various expenses.

Accounting policies of the practice groups are the same as those described in Note 1 to the Annual Report on Form 10-K for the year ended December 31, 2011. Upon consolidation, all intercompany accounts and transactions are eliminated; thus inter-segment revenue is not included in the measure of profit or loss for the practice groups. Performance of the practice groups is evaluated on operating income excluding the costs of certain infrastructure functions (such as information systems, finance and accounting, human resources, legal and marketing), which are reported in the Corporate and Other segment.

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CBIZ, INC. AND SUBSIDIARIES

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

Segment information for the three and six months ended June 30, 2012 and 2011 was as follows (in thousands):

	Three Months Ended June 30, 2012					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	$ 101,336	$ 45,609	$ 34,400	$ 7,261	$	$ 188,606
Operating expenses	89,131	38,520	30,754	6,659	1,627	166,691
Gross margin	12,205	7,089	3,646	602	(1,627)	21,915
Corporate general & admin					7,638	7,638
Operating income (loss)	12,205	7,089	3,646	602	(9,265)	14,277
Other income (expense):						
Interest expense		(6)			(4,140)	(4,146)
Gain on sale of operations, net					50	50
Other income (expense), net	66	77	44		(1,027)	(840)
Total other income (expense)	66	71	44		(5,117)	(4,936)
Income (loss) from continuing operations before income tax expense	$ 12,271	$ 7,160	$ 3,690	$ 602	$ (14,382)	$ 9,341

	Three Months Ended June 30, 2011					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	$ 96,607	$ 43,197	$ 35,654	$ 8,006	$	$ 183,464
Operating expenses	83,086	36,165	31,459	6,794	2,891	160,395
Gross margin	13,521	7,032	4,195	1,212	(2,891)	23,069
Corporate general & admin					6,744	6,744
Operating income (loss)	13,521	7,032	4,195	1,212	(9,635)	16,325
Other income (expense):						
Interest expense	(5)	(6)			(4,396)	(4,407)
Gain on sale of operations, net					2	2
Other income (expense), net	63	159	79		(274)	27
Total other income (expense)	58	153	79		(4,668)	(4,378)
Income (loss) from continuing operations before income tax expense	$ 13,579	$ 7,185	$ 4,274	$ 1,212	$ (14,303)	$ 11,947

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CBIZ, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2012					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	$ 233,500	$ 93,668	$ 67,671	$ 14,594	$	$ 409,433
Operating expenses	186,364	77,968	61,274	13,381	7,709	346,696
Gross margin	47,136	15,700	6,397	1,213	(7,709)	62,737
Corporate general & admin					18,182	18,182
Operating income (loss)	47,136	15,700	6,397	1,213	(25,891)	44,555
Other income (expense):						
Interest expense		(12)			(8,256)	(8,268)
Gain on sale of operations, net					2,639	2,639
Other income, net	96	193	117		2,192	2,598
Total other income (expense)	96	181	117		(3,425)	(3,031)
Income (loss) from continuing operations before income tax expense	$ 47,232	$ 15,881	$ 6,514	$ 1,213	$ (29,316)	$ 41,524

	Six Months Ended June 30, 2011					
	Financial Services	Employee Services	MMP	National Practices	Corporate and Other	Total
Revenue	$ 218,893	$ 87,632	$ 71,065	$ 15,943	$	$ 393,533
Operating expenses	172,991	72,862	63,533	13,451	7,285	330,122
Gross margin	45,902	14,770	7,532	2,492	(7,285)	63,411
Corporate general & admin					16,304	16,304
Operating income (loss)	45,902	14,770	7,532	2,492	(23,589)	47,107
Other income (expense):						
Interest expense	(5)	(12)			(9,305)	(9,322)
Gain on sale of operations, net					2,745	2,745
Other income (expense), net	121	530	148		2,309	3,108
Total other income (expense)	116	518	148		(4,251)	(3,469)
Income (loss) from continuing operations before income tax expense	$ 46,018	$ 15,288	$ 7,680	$ 2,492	$ (27,840)	$ 43,638

15. Subsequent Events

On July 1, 2012, CBIZ acquired Stoltz and Company, LTD., L.L.P. (Stoltz) of Midland, Texas. Stoltz has operations in Amarillo, San Antonio and Midland, Texas and specializes in multiple insurance products and services including property and casualty insurance, personal lines insurance, employee benefits, and oil and gas management. Annual revenues are expected to be $3.2 million and will be reported in the Employee Services practice group.

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

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

The following discussion is intended to assist in the understanding of CBIZ s financial position at June 30, 2012 and December 31, 2011, results of operations for the three and six months ended June 30, 2012 and 2011, and cash flows for the six months ended June 30, 2012 and 2011, 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2011. 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 Risk Factors included in the Annual Report on Form 10-K for the year ended December 31, 2011.

Overview

CBIZ provides professional business services that help clients better manage 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. CBIZ delivers its integrated services through four practice groups: Financial Services, Employee Services, Medical Management Professionals (MMP), and National Practices. See Note 14 to the accompanying consolidated financial statements for a general description of services provided by each practice group.

See the Annual Report on Form 10-K for the year ended December 31, 2011 for further discussion of external relationships and regulatory factors that currently impact CBIZ s operations.

Executive Summary

Revenue for the three months ended June 30, 2012 increased by 2.8% to $188.6 million from the $183.5 million reported for the comparable period in 2011. Revenue from newly acquired operations, net of divestitures, contributed $6.9 million, or 3.8%, to the growth in revenue, which was partially offset by a same-unit revenue decline of $1.8 million, or 1.0%. Revenue for the six months ended June 30, 2012 increased by 4.0% to $409.4 million from the $393.5 million reported for the comparable period in 2011. Revenue from newly acquired operations, net of divestitures, contributed $15.8 million, or 4.0%, and same-unit revenue contributed $0.1 to the growth in revenue.

Earnings per share from continuing operations was $0.12 per diluted share for the three months ended June 30, 2012 and $0.14 for the comparable period in 2011. For the six months ended June 30, 2012 and 2011, earnings per diluted share from continuing operations were $0.50. Cash earnings per diluted share were $0.27 and $0.29 for the three months ended June 30, 2012 and 2011, respectively, and $0.79 and $0.78 for the six months ended June 30, 2012 and 2011, respectively. CBIZ believes cash earnings per diluted share more clearly illustrates the impact of certain non-cash charges to income from continuing operations and is a useful measure for the Company and its analysts. Cash earnings per diluted share is a measurement prepared on a basis other than generally accepted accounting principles (GAAP), otherwise known as a non-GAAP measure. As such, the Company has included this data and has provided a reconciliation to the nearest GAAP measurement, income per diluted share from continuing operations . Reconciliations for the three and six months ended June 30, 2012 and 2011 are provided in the Results of Operations Continuing Operations section that follows.

During the six months ended June 30, 2012, CBIZ acquired two businesses: Meridian Insurance Group, LLC (Meridian) and Primarily Care, Inc. (PCI). Meridian is an insurance brokerage located in Boca Raton, Florida and Atlanta, Georgia and provides multiple insurance products and services including property and casualty, bonding, personal lines and employee benefits. PCI is an employee benefits brokerage firm located in Cranston, Rhode Island and provides long-term healthcare cost reduction strategies and employee benefits consulting. Annual revenues for Meridian and PCI are approximately $4.4 million and $3.2 million, respectively. Meridian and PCI are reported in the Employee Services practice group.

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Results of Operations Continuing Operations

Same-unit revenue represents total revenue adjusted to reflect comparable periods of activity for acquisitions and divestitures. For example, for a business acquired on June 1, 2011, revenue for the month of June would be included in same-unit revenue for both years; revenue for the period January 1, 2012 through May 31, 2012 would be reported as revenue from acquired businesses.

Three Months Ended June 30, 2012 and 2011

Revenue The following table summarizes total revenue for the three months ended June 30, 2012 and 2011 (in thousands, except percentages).

	Three Months Ended June 30,					
	2012	% of Total	2011	% of Total	$ Change	% Change
Same-unit revenue						
Financial Services	$ 97,840	51.9%	$ 96,607	52.7%	$ 1,233	1.3%
Employee Services	42,183	22.4%	43,197	23.5%	(1,014)	(2.3)%
MMP	34,400	18.2%	35,654	19.4%	(1,254)	(3.5)%
National Practices	7,261	3.8%	8,006	4.4%	(745)	(9.3)%
Total same-unit revenue	181,684	96.3%	183,464	100.0%	(1,780)	(1.0)%
Acquired businesses	6,922	3.7%			6,922	
Total revenue	$ 188,606	100.0%	$ 183,464	100.0%	$ 5,142	2.8%

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

Gross margin and operating expenses Operating expenses increased by $6.3 million to $166.7 million for the three months ended June 30, 2012 from $160.4 million for the comparable period of 2011, and increased as a percentage of revenue to 88.4% for the three months ended June 30, 2012 from 87.4% for the comparable period of 2011. The primary components of operating expenses for the three months ended June 30, 2012 and 2011 are included in the following table:

	Three Months Ended June 30,				
	2012		2011		
	% of Operating Expense	% of Revenue	% of Operating Expense	% of Revenue	Change in % of Revenue
Personnel costs	74.8%	66.1%	74.3%	64.9%	1.2%
Occupancy costs	6.6%	5.9%	6.7%	5.9%	
Depreciation and amortization	3.1%	2.8%	3.0%	2.7%	0.1%
Travel and related costs	3.3%	3.0%	3.2%	2.8%	0.2%
Other (1)	12.7%	11.1%	12.8%	11.1%	
Subtotal	100.5%	88.9%	100.0%	87.4%	1.5%
Deferred compensation costs	(0.5)%	(0.5)%			(0.5)%
Total operating expenses	100.0%	88.4%	100.0%	87.4%	1.0%
Gross margin		11.6%		12.6%	(1.0)%

(1) Other operating expenses include office expenses, equipment costs, professional fees, restructuring charges, bad debt and other expenses, none of which are individually significant as a percentage of total operating expenses.

The increase in operating expenses as a percentage of revenue that was attributable to personnel costs was a result of increased staffing at certain locations as well as an increase in bonus accruals at those locations that exceeded profitability targets. The decrease in deferred compensation costs as a percentage of revenue was due to losses in the value of the assets held in relation to CBIZ s deferred compensation plan, which resulted in a favorable impact to gross margin for the three months ended June 30, 2012, compared to a modest gain resulting in no impact to gross margin for the comparable period in 2011. The

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increase in depreciation and amortization was due to additions of intangible assets related to acquisition activities during the past year. The increase in travel and related costs as a percentage of revenue was primarily due to increased client development efforts. Personnel and other operating expenses are discussed in further detail under Operating Practice Groups .

Corporate general and administrative expenses Corporate general and administrative (G&A) expenses increased by $0.9 million to $7.6 million for the three months ended June 30, 2012 from $6.7 million for the comparable period of 2011, and increased as a percentage of revenue to 4.0% for the three months ended June 30, 2012 from 3.7% for the comparable period of 2011. The primary components of G&A expenses for the three months ended June 30, 2012 and 2011 are included in the following table:

	Three Months Ended June 30,				
	2012		2011		
	% of G&A Expense	% of Revenue	% of G&A Expense	% of Revenue	Change in % of Revenue
Personnel costs	42.3%	1.7%	52.5%	1.9%	(0.2)%
Professional services	25.5%	1.0%	12.5%	0.5%	0.5%
Computer costs	5.9%	0.2%	6.5%	0.2%	
Travel and related costs	4.5%	0.2%	5.0%	0.2%	
Depreciation and amortization	1.1%		1.3%		
Other (1)	21.2%	0.9%	22.2%	0.9%	
Subtotal	100.5%	4.0%	100.0%	3.7%	0.3%
Deferred compensation costs	(0.5)%				
Total G&A expenses	100.0%	4.0%	100.0%	3.7%	0.3%

(1) Other G&A expenses include office expenses, equipment costs, occupancy costs, insurance expense and other expenses, none of which are individually significant as a percentage of total G&A expenses.

The decrease in G&A expenses as a percentage of revenue attributable to personnel costs is primarily due to a decrease in incentive based compensation accruals as a lesser percentage of the estimated annual incentive payout was accrued during the three months ended June 30, 2012 compared to the same period in 2011. The increase in professional fees was primarily related to an increase in legal fees during the three months ended June 30, 2012 compared to the same period last year. The increase in legal expenses was due to an increase in legal activity related to the claims against CBIZ as described in Note 6 of the accompanying consolidated financial statements.

Interest expense Interest expense decreased by $0.3 million to $4.1 million for the three months ended June 30, 2012 from $4.4 million for the comparable period in 2011. The decrease in interest expense was due to a net decrease of $0.5 million related to the 2006 Senior Subordinated Convertible Notes (2006 Notes), partially offset by an increase of $0.2 million related to the $275 million unsecured credit facility (credit facility). The decrease related to the 2006 Notes was a result of a decrease in average carrying value to $0.8 million for the three months ended June 30, 2012 from $26.6 million for the same period last year, as well a decrease in the amortization of the discount related to the 2006 Notes. The increase in interest related to the credit facility was primarily due to an increase in the average outstanding balance to $172.0 million for the three months ended June 30, 2012 compared to an average outstanding balance of $139.2 million for the three months ended June 30, 2011. The weighted average interest rate on the credit facility was 3.1% for the three months ended June 30, 2012 and 2011. See Note 5 of the accompanying consolidated financial statements for further discussion of CBIZ s debt arrangements.

Other (expense) income, net For the three months ended June 30, 2012 and 2011, other (expense) income, net is primarily comprised of gains and losses in the fair value of investments held in a rabbi trust related to the deferred compensation plan. For the three months ended June 30, 2012, losses in the fair value of investments related to the deferred compensation plan were $0.9 million compared to modest gains for the three months ended June 30, 2011. These adjustments do not impact CBIZ s net income as they are offset by the corresponding decrease or increase to compensation expense which is recorded as operating and G&A expenses in the consolidated statements of comprehensive income.

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Income tax expense CBIZ recorded income tax expense from continuing operations of $3.5 million and $5.1 million for the three months ended June 30, 2012 and 2011, respectively. The effective tax rate for the three months ended June 30, 2012 was 37.6%, compared to an effective tax rate of 42.6% for the comparable period in 2011. The decrease in the effective tax rate primarily relates to the release of a valuation allowance on a state income tax credit carryforward during the second quarter of 2012.

Earnings per share and cash earnings per share Earnings per share from continuing operations were $0.12 and $0.14 per diluted share for the three months ended June 30, 2012 and 2011, respectively, and cash earnings per share were $0.27 and $0.29 per diluted share for the three months ended June 30, 2012 and 2011, respectively. The Company believes cash earnings and cash earnings per diluted share, which are non-GAAP measures, more clearly illustrate the impact of certain non-cash charges and credits to income from continuing operations and are a useful measure for the Company, its investors and its analysts. Management uses these performance measures to evaluate CBIZ s business, including ongoing performance and the allocation of resources. Cash earnings and cash earnings per diluted share are provided in addition to the presentation of GAAP measures and should not be regarded as a replacement or alternative of performance under GAAP. The following is a reconciliation of income from continuing operations to cash earnings from operations and diluted earnings per share from continuing operations to cash earnings per diluted share for the three months ended June 30, 2012 and 2011.

CASH EARNINGS AND PER SHARE DATA

Reconciliation of Income from Continuing Operations to Cash Earnings from Continuing Operations

	Three Months Ended June 30,			
	2012	**Per Share**	**2011**	**Per Share**
	(In thousands, except per share data)			
Income from continuing operations	$ 5,829	$ 0.12	$ 6,852	$ 0.14
Selected non-cash charges:				
Depreciation and amortization	5,306	0.11	4,965	0.10
Non-cash interest on convertible notes	659	0.01	912	0.02
Stock-based compensation	1,363	0.03	1,590	0.03
Adjustment to contingent earnouts	147			
Non-cash charges	$ 7,475	$ 0.15	$ 7,467	$ 0.15
Cash earnings continuing operations	$ 13,304	$ 0.27	$ 14,319	$ 0.29

Operating Practice Groups

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

Financial Services

	Three Months Ended June 30,			
	2012	**2011**	**$ Change**	**% Change**
	(In thousands, except percentages)			
Revenue				
Same-unit	$ 97,840	$ 96,607	$ 1,233	1.3%
Acquired businesses	3,496		3,496	
Total revenue	$ 101,336	$ 96,607	$ 4,729	4.9%
Operating expenses	89,131	83,086	6,045	7.3%

Gross margin	$ 12,205	$ 13,521	$ (1,316)	(9.7)%
Gross margin percent	12.0%	14.0%		

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The increase in same-unit revenue was primarily the result of stronger performance in the units that provide certain national services. With respect to the accounting units, hours charged to clients declined approximately 1% for the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The decline in hours was due to improved engagement efficiencies and a decrease in client demand in several local business units. Revenue from acquired businesses was the result of the acquisitions of Thompson Dunavant, which occurred on August 1, 2011, and to a lesser extent, the acquisition of Gresham Smith, which occurred on October 1, 2011.

CBIZ provides a range of services to affiliated CPA firms under joint referral and administrative service agreements (ASAs). Fees earned by CBIZ under the ASAs are recorded as revenue in the accompanying consolidated statements of comprehensive income and were approximately $28.7 million and $26.6 million for the three months ended June 30, 2012 and 2011, respectively. The increase in ASA fees was the result of acquisitions and same unit improvements from groups performing national services.

The largest components of operating expenses for the Financial Services practice group are personnel costs, occupancy costs, and travel and related costs which represented 88.7% and 89.4% of total operating expenses for the three months ended June 30, 2012 and 2011, respectively. Personnel costs increased $4.1 million during the three months ended June 30, 2012 compared to the same period in 2011, and represented 78.7% and 79.5% of total operating expenses for the three months ended June 30, 2012 and 2011, respectively. The increase was comprised of an increase in same-unit personnel costs of $1.4 million due to investments in resources at several units, including increased headcount at the National Units, and an increase of $2.7 million associated with the acquisition of Thompson Dunavant and Gresham Smith. Personnel costs represented 69.3% and 68.4% of revenue for the three months ended June 30, 2012 and 2011, respectively. Occupancy costs are relatively fixed in nature and were $5.9 million, or 5.9% of revenue, and $5.7 million, or 5.9% of revenue, for the three months ended June 30, 2012 and 2011, respectively. Travel and related costs were $2.9 million for the three months ended June 30, 2012 compared to $2.6 million for the same period in 2011, and were 2.9% and 2.7% of total revenue for the three months ended June 30, 2012 and 2011, respectively. The increase in travel and related costs was due to increased client development, professional staff training efforts and the impact of acquisitions. Bad debt expense increased $0.8 million in the three months ended June 30, 2012 compared to the same period a year ago, and was 1.5% and 0.8% of revenue for the three months ended June 30, 2012 and 2011, respectively, and was associated with specific reserves on several clients.

Gross margin percentage decreased 2.0% and was 12.0% for the three months ended June 30, 2012 compared to 14.0% for the same period in 2011. The decrease in gross margin percentage was due mostly to higher same-unit personnel costs and increased bad debt expense.

Employee Services

	Three Months Ended June 30,			
	2012	2011	$ Change	% Change
	(In thousands, except percentages)			
Revenue				
Same-unit	$ 42,183	$ 43,197	$ (1,014)	(2.3)%
Acquired businesses	3,426		3,426	
Total revenue	$ 45,609	$ 43,197	$ 2,412	5.6%
Operating expenses	38,520	36,165	2,355	6.5%
Gross margin	$ 7,089	$ 7,032	$ 57	0.8%
Gross margin percent	15.5%	16.3%		

The decrease in same-unit revenue was primarily attributable to declines in the Company s employee benefits and specialty life insurance businesses, offset by an increase in the human capital advisory business. The decrease in employee benefits revenues of $0.6 million is due to continued competitive

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pressures as well a decline in volume-based carrier bonus payments. The decrease in specialty life revenues of $0.6 million is due to lower client demand for life insurance plans. Partially offsetting these decreases was an increase in the Company s human capital advisory revenues of $0.3 million due to an increase in demand for executive recruiting services.

The growth in revenue from acquisitions was provided by: Multiple Benefits Services, an employee benefits business located in Atlanta, Georgia that was acquired in the third quarter of 2011; PSA Insurance, a retirement advisory business located in Baltimore, Maryland that was acquired in the fourth quarter of 2011; Advantage Benefit Planning, an employee benefits business located in Pleasantville, New Jersey that was acquired in the fourth quarter of 2011; Meridian, a property and casualty insurance and employee benefits business headquartered in Boca Raton, Florida with an office in Atlanta, Georgia that was acquired in the first quarter of 2012; Strategic Employee Benefit Services, an employee benefits client list in the Chicago, Illinois market that was acquired in the first quarter of 2012; and PCI, an employee benefits business located in Cranston, Rhode Island, that was acquired in the second quarter of 2012.

The largest components of operating expenses for the Employee Services group are personnel costs, including commissions paid to third party brokers, and occupancy costs, representing 83.2% and 83.6% of total operating expenses for the three months ended June 30, 2012 and 2011, respectively. Personnel costs increased approximately $1.7 million, primarily as a result of the acquired businesses. Personnel costs represented 64.7% and 64.5% of revenue for the quarters ended June 30, 2012 and 2011, respectively. Occupancy costs are relatively fixed in nature and were $2.5 million and $2.4 million for the second quarters of 2012 and 2011, respectively. The increase in occupancy costs was entirely related to the acquired businesses.

The decrease in gross margin percent was primarily attributable to the revenue declines discussed above, which includes the declines in volume-based carrier bonus payments that have a direct negative impact on gross margin as there are no corresponding expenses associated with these revenues.

MMP

	Three Months Ended June 30,			
	2012	2011	$ Change	% Change
	(In thousands, except percentages)			
Same-unit revenue	$ 34,400	$ 35,654	$ (1,254)	(3.5)%
Operating expenses	30,754	31,459	(705)	(2.2)%
Gross margin	$ 3,646	$ 4,195	$ (549)	(13.1)%
Gross margin percent	10.6%	11.8%		

Same-unit revenue decreased 3.5% for the three months ended June 30, 2012 versus the comparable period in 2011. Revenue from existing, mature clients was down approximately 4.0% while revenue from new clients sold net of client terminations increased by approximately 0.5%. The decline in revenue from existing clients can be attributed to several factors including decreases in pricing and reimbursement rates and a change in the mix of procedures resulting in a decrease in the average revenue per procedure. The increase in revenue from new clients sold net of client terminations is due to sales volume from new clients exceeding revenue lost from client terminations. Client terminations are attributable to many factors including: physician groups losing their hospital contracts, clients moving their billing function in-house, changes in group ownership, hospital consolidations and increased competitive pressures.

The largest components of operating expenses for MMP are personnel costs, professional service fees for off-shore and electronic claims processing, occupancy costs and office expenses (primarily postage related to the Company s statement mailing services). These expenses represented 85.9% and 86.4% of total operating expenses for the three months ended June 30, 2012 and 2011, respectively. Due to a reduction in headcount, personnel costs decreased $0.9 million for the three months ended June 30, 2012, and decreased as a percentage of revenue to 55.2% from 55.8% for the comparable period in 2011. The reduction in headcount and related personnel costs in billing operations is due to the expanded utilization of off-shore processing, utilization of new technologies, as well as a response to the decline in revenue. Professional services increased by $0.4 million for the three months ended June 30, 2012 and increased as a percentage of revenue to 7.5% from 6.1% for the comparable period last year due to the increase in off-shore processing. Facilities costs decreased $0.2 million for the three months ended June 30, 2012 compared to the same period last year, and decreased as a percentage of revenue to 6.4% compared 6.7% for the comparable period in 2011. This decrease was due to the consolidation of certain offices. Office expenses decreased $0.1 million for the three months ended June 30, 2012, but remained at 7.7% of revenue for both periods.

The decrease in gross margin is the result of continued pricing and reimbursement pressure as described above.

National Practices

	Three Months Ended June 30,			
	2012	2011	$ Change	% Change
	(In thousands, except percentages)			
Same-unit revenue	$ 7,261	$ 8,006	$ (745)	(9.3)%
Operating expenses	6,659	6,794	(135)	(2.0)%
Gross margin	$ 602	$ 1,212	$ (610)	(50.3)%
Gross margin percent	8.3%	15.1%		

The decrease in revenue was attributable to CBIZ s mergers and acquisitions business completing a transaction and recording a success fee of $0.8 million in the three months ended June 30, 2011, and not closing a transaction in the three months ended June 30, 2012, thus recording no success fees in 2012. This decrease was partially offset by slight increases in services provided under a contractual relationship with CBIZ s largest client, Edward Jones.

The largest components of operating expenses for the National Practices group are personnel costs, occupancy costs, and travel and related costs representing 94.5% and 95.2% of total operating expenses for the three months ended June 30, 2012 and 2011, respectively. Personnel costs for the three months ended June 30, 2012 decreased by $0.2 million compared to the same period a year ago, but increased as a percentage of revenue to 83.8% for the three months ended June 30, 2012 from 78.0% for the same period in 2011. The decrease in personnel costs is primarily due to lower incentive compensation in the mergers and acquisitions business as no transactions were closed during 2012. Occupancy costs and travel and related costs were flat for the three months ended June 30, 2012 and 2011.

The decrease in gross margin is primarily the result of a decrease in revenues combined with relatively flat operating expenses for the three months ended June 30, 2012 compared to the same period in 2011.

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Six Months Ended June 30, 2012 and 2011

Revenue The following table summarizes total revenue for the six months ended June 30, 2012 and 2011 (in thousands, except percentages).

	Six Months Ended June 30,					
	2012	% of Total	2011	% of Total	$ Change	% Change
Same-unit revenue						
Financial Services	$ 224,361	54.8%	$ 218,893	55.6%	$ 5,468	2.5%
Employee Services	87,030	21.2%	87,632	22.3%	(602)	(0.7)%
MMP	67,671	16.5%	71,065	18.1%	(3,394)	(4.8)%
National Practices	14,594	3.6%	15,943	4.0%	(1,349)	(8.5)%
Total same-unit revenue	393,656	96.1%	393,533	100.0%	123	
Acquired businesses	15,777	3.9%			15,777	
Total revenue	$ 409,433	100.0%	$ 393,533	100.0%	$ 15,900	4.0%

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

Gross margin and operating expenses Operating expenses increased to $346.7 million for the six months ended June 30, 2012 from $330.1 million for the comparable period of 2011, and increased as a percentage of revenue to 84.7% for the six months ended June 30, 2012 from 83.9% for the comparable period of 2011. The primary components of operating expenses for the six months ended June 30, 2012 and 2011 are included in the following table:

	Six Months Ended June 30,				
	2012		2011		
	% of Operating Expense	% of Revenue	% of Operating Expense	% of Revenue	Change in % of Revenue
Personnel costs	75.1				